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The Indonesian Quarterly

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- ❑ Religion and Realpolitik in Muslim Southeast Asia
- ❑ Piracy and the Challenges of Cooperative Security and Enforcement Policy

REVIEW OF POLITICAL DEVELOPMENT

- ❑ Indonesia's Political Reform: Still a Long Way to Go
- ❑ Socio-Political Security Improved, Albeit Significantly

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- ❑ Islam and the Challenge of Managing Globalization
- ❑ People Smuggling as an Increasingly Crucial Factor in Transnational Organized Crime
- ❑ Energy Demand in Indonesia: Past and Future Trend
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The Case of Indonesian Construction Sub-Contractors
- ❑ Indonesia's Forestry Sector and Trade Liberalization:
A General Equilibrium Analysis
- ❑ ASEAN: The Challenge of Integration, Cohesion,
and Maritime Cooperation



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The Indonesian Quarterly is a journal of policy oriented studies published by the Centre for Strategic and International Studies (CSIS), Jalan Tanah Abang III/23-27, Jakarta 10160. It is a medium for research findings, evaluations and views of scholars, statesmen and thinkers on the Indonesian situation and its problems. It is also a medium for Indonesian views on regional and global problems. The opinions expressed in *The Indonesian Quarterly* are those of their authors and do not necessarily reflect the opinion of the CSIS.

The Logo



To better represent the underlying ideas that gave birth to the CSIS in 1971 the Centre uses as of 1989 the logo that figures on the front cover of this journal. The original, in bronze, designed by G. Sidharta, it consists of a disc with an engraving that depicts the globe which serves as a background to a naked man with an open book laid on a cloth over his lap, his left hand pointing into the book, his right hand raised upwards. Altogether it symbolises the Centre's nature as an institution where people think, learn and communicate their knowledge to whoever are interested, to share it with them, mankind the world over being their concern and the globe their horizon. The nakedness symbolises the open-mindedness, the absence of prejudice, in the attitude of the scholars who work with the Centre, just as it is with scholars everywhere. The inscription reads "*Nalar Ajar Terusan Budi*", which in the Javanese language essentially means that to think and to share knowledge are only the natural consequence of an enlightened mind. It is a *surya sengkala*, that is *chandra sengkala*, a Javanese traditional way to symbolise a commemorable year in the lunar calendar, adapted to the solar calendar system. It consists in using words that express the perceived meaning of the commemorated year while marking the year at the same time, each word having a numerical value. Thus, the inscription, in reverse order, represents the year the CSIS was established: 1971.

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ABSTRACTS

ISLAM AND THE CHALLENGE OF MANAGING GLOBALIZATION

By Ahmad Syafii Maarif

The September 11 tragedy has put Islam in a greater focus than ever. Islam inevitably becomes a new centre of attention, both in positive and negative terms. The process of globalization has added complexity to the global international relations, and this is exactly the challenge faced by Islam. One of the questions this article addresses is how the globalization has affected Muslims in Southeast Asia. The author says that within the Muslim community in Southeast Asia, grievances against globalization are often heard. There is a widespread belief in some quarters that globalization is a form of global conspiracy of the West aimed at undermining Islam and the Muslim community. It is seen as an instrument of the West to erode the *aqidah Islamiyah*. In that context, the author argues that globalization has come to be seen as a direct challenge to Islam and the Muslim community.

PEOPLE SMUGGLING AS AN INCREASINGLY CRUCIAL FACTOR IN TRANS-NATIONAL ORGANIZED CRIME

By C.P.F. Luhulima

Smuggling of people continues to increase in number and has become an issue of global nature. However, this issue cannot be combated by one country alone. Multilateral efforts are therefore imperative in combating such crime. This article discusses human smuggling issue, a growing trend in transnational organized crime, and regional and Indonesian responses to the issue. The author argues that trade in and smuggling of human in the Southeast Asia region almost equals drug-trafficking in lucrativeness and it is heading for the apex of the organized-crime league in the region.

ENERGY DEMAND IN INDONESIA: PAST AND FUTURE TREND

By Budy P. Resosudarmo and Tanujaya

Indonesian economic recovery and expected steady economic growth in the future will result in the increase in the energy demand. This article shows that the energy demand will increase by twofold in every ten years, i.e., the average annual growth rate of energy demand is approximately 7.2%. Based on the trend of past energy demand, the future energy demand will still be heavily on petroleum-based fuel. Industrial and transportation sectors will be the major consumers of energy. Hence, the more important problems caused by this future energy demand are: (1) finding enough funds to develop new energy production facilities; (2) finding new resources and managing currently available natural resources as energy sources; and, (3) managing emissions from the use of energy. Finally, this article shows that the current energy policy might not be sufficient for meeting the future energy demand.

IMMIGRANT ENTREPRENEURS IN MALAYSIA: THE CASE OF INDONESIAN CONSTRUCTION SUB-CONTRACTORS

By Abdul Rashid Abdul Aziz and Hafiz Hashim

Upward vertical mobility of immigrants in many labor-recipient countries is often characterized by self-employment. While Indonesian immigrants becoming petty traders clandestinely in urban centres in Malaysia have been well publicized, the same cannot be said of Indonesian entrepreneurs operating within the construction contracting hierarchy. Yet studies conducted by the authors point to their ubiquity, at least in major urban centres throughout the country. While this development adds further to the vibrancy of this important economic sector, their perpetuation and even possibly enlarged role may thwart the government's objective to nurture and groom 'bumiputera' (indigenous) contractors, especially those with small- and medium-scale, to become self-reliant and competitive in their own right some day. Other than industrial ramifications, the effect of Indonesian sub-contractors perpetuating the incidence of Indonesian site-operatives in Malaysia also bears long-term economic, demographic and political implications.

INDONESIA'S FORESTRY SECTOR AND TRADE LIBERALIZATION: A GENERAL EQUILIBRIUM ANALYSIS

By Tubagus Feridhanusetyawan and Yose Rizal Damuri

This article discusses how to measure the impact of various schemes of trade liberalization on the economies in the Asia Pacific region in general and on performance of Indonesia's forestry related sector in particular by using a global computable general equilibrium (CGE) model known as the Global Trade Analysis Project (GTAP). The result of this study shows that the more progressive and wider coverage of trade liberalization would generally lead to bigger gain in terms of increasing production, export and economic welfare. Forestry related sectors would also benefit largely from the trade liberalization. A more open trade regime would increase the production of forestry sector related commodities by increasing the demand and more effective economic resource allocation to the sectors.

ASEAN: THE CHALLENGE OF INTEGRATION, COHESION, AND MARITIME COOPERATION

By Sidharto Suryodipuro

Regional integration has been ASEAN's main preoccupation since the Singapore Summit (2000) agreed on an Initiative for ASEAN Integration (IAI). It is through regional integration that ASEAN attempts to make itself the master of the region, especially in this era of globalization. The article discusses ASEAN regional cooperation and the challenges it might face in a more complex regional international relations. The author argues that internal and external challenges faced by ASEAN are intertwined because of the region's strategic location. Internally, the main challenge is restoring ASEAN cohesiveness which had weakened in the later half of 1990s. Externally, one of the challenges is to keep up with the pace of the development as a result of the process of globalization.

Religion and Realpolitik in Muslim Southeast Asia

Sharon Siddique

TWO MAJOR POLITICAL TRENDS

THE world press is playing catch-up in navigating the complexities of the newly discovered Muslim global presence. The focus has been on Islam and the West. But what is going on within the Muslim world is equally important, and it is here that Southeast Asia has something to contribute. Several years ago, an Egyptian Muslim scholar was touring Southeast Asia. When asked whether he had come to teach, he replied: "No, I have come to learn. In the history of our Islamic civilization, renewal begins in the periphery, and revitalizes the center". What lessons lie in Muslim Southeast Asia?

In the 20th century, two distinct Muslim political variants emerged. The first is a strict fundamentalist Islam, which disseminates a utopian vision of a global Muslim community (*ummah*). The second is a moderate Islam which acknowledges the diversity of the *ummah*. In the first, religion triumphs over realpolitik. In the second, realpolitik accommodates religion. Prior

to the September 11th tragedy, fundamentalists held the moral high ground, and moderate were on the defensive. The war on terrorism has turned the tables, and moderates now have an opportunity to set the Muslim agenda. Muslim moderates in Southeast Asia are in a strong position to capitalize on this, because they have built political legitimacy. Although Islamization has been a powerful force, moderate Muslims have generally managed to contain fundamentalist challenges.

The visible impact of September 11th attacks on national politics has been most dramatic in Malaysia. UMNO (United Malays National Organisation) appears to be turning the tables on PAS (Partai Islam Se-Malaysia). Before September 11th, flushed with electoral gains, Barisan Alternative (BA) became the leader of the multi-racial alternative coalition, while PAS was on the offensive.

After September 11th, PAS has been put on the defensive. The BA was left in disarray with the exit of the Chinese-based Democratic Alliance Party (DAP).

Pressing this advantage, UMNO leader, Prime Minister Mahathir, announced that Malaysia is already an "Islamic state", placing the onus on PAS to prove otherwise. The January 2002 UMNO-led Barisan National (BN) victory in the recent Perlis by-elections seem to confirm this trend.

THE APPEAL OF PAN-ISLAMISM

The political articulation of fundamentalism is Pan-Islamism. Its major distinguishing feature is the realization of the Islamic vision at an international level. Pan-Islamists travel the world, lecturing, listening, and exhorting the faithful. Judging from their influence, they are able to transcend the more mundane concerns of tribal, ethnic, and national loyalties in delivering their message. There appear to be three reasons for their success: (1) The appeal of an alternative global identity; (2) The utopian nature of personal experience; and, (3) The promise of an holistic, equitable social order.

Pan-Islamism offers Muslims an alternative identity. Muslims in Southeast Asia are an integral part of the *ummah* (Muslim community), which is one of the world's most developed global communities. The *ummah* communicates in a common language, Arabic. It shares the same traditions. It performs the same rituals. There is a pride in identifying with the more than one billion Muslims worldwide. About 20% -or approximately 220 million- live in Southeast Asia.

This identity is strengthened by personal experiences. *First*, the elaborate, ritual-rich

Islamic tradition reinforces the solidarity of the *ummah*. For example, in the five daily prayers (*shalat*), which every Muslim should perform five times daily, in Arabic, facing Mecca. *Second*, through the annual, shared rigours of the fasting month of Ramadhan. *Third*, through religious education. Religious schools in Southeast Asia place a great deal of importance on fluency in Arabic, and canonical expertise. Thousands study in Islamic centers of learning in the Middle East and South East Asia.

A visit to Mecca, the holy city of Islam, is an intensely personal experience. Each year, two million members of the *ummah* meet in Mecca to perform the pilgrimage (*haj*), where they are all equal, one before God. Around ten percent -or 200,000- of those performing *haj* come from Southeast Asia. Because of the distance, most will visit the Middle East only once in their lifetimes. These returning *hajis* (those who have performed the pilgrimage) revitalize the utopian vision of the Muslim faith. Moreover, by association through this intensely religious experience, the Arabs -the Arabic language and the Arabic cultural norms- are revered.

Pan-Islamic messengers do not generally operate exclusively within a national context. Some dismiss the nation-state as a western institution. Others simply consider it irrelevant to their message. Osama bin Laden, for example, is a man without a country. Expelled from Saudi Arabia, he was given refuge by the Taleban, but certainly not accepted as Afghan. Because he is stateless, he can adopt an uncompromising appeal to the *ummah*.

There are common elements in the Pan-Islamic message which is global. Mankind is simply divided into Muslims and non-Muslims (*kafir*). This powerful dualism is extended from society to territory. The world's geographical landscape is divided into the territory of Islam, *dar al Islam*, and non-Muslim territory, *dar al harb* (literally, the territory of war).

Pan-Islamists exhort Muslims to practice their faith, which means striving to translate the fundamentalist vision into reality. They make no distinction between secular and sacred. The Qur'an and the traditions of the Prophet Muhammad (*hadith*) provide the basis for political, economic, legal, and social order, embodied in the divine law (*shari'ah*). The struggle to ensure that *dar-al-Islam* is governed according to the principles of the *shari'ah* is *jihad*. It has taken September 11th, and the subsequent revelations about the *al Qaeda* terrorist network to realize that Pan-Islamists have been given a near monopoly to represent the powerful universalism of Islam, the all-pervasive solidarity of the *ummah*, and the immutability of *shari'ah*. For too long, they have been a major inhibiting factor in obstructing open discussions amongst Muslims, as well as dialogues between Muslims and non-Muslims. In neglecting the need to discuss diversity, Muslims have weakened their world.

THE ACCOMMODATION OF ISLAM

Southeast Asia is characterized by complex religious, ethnic, cultural heterogeneity. Arabic is not the native language of Muslims in Southeast Asia, and the

Middle East is not their homeland. Historically, there has been a strong sense of cultural identity, which has resisted the Arabization of Southeast Asia's complex cultural mosaic. This begs a question that perhaps can best be answered from the periphery: What is the core and what are the embellishments of the faith as practiced? Put differently what elements of Muslim culture -broadly speaking- must be accepted as fundamental to the faith, and what elements can be adapted to local conditions?

Islam in Southeast Asia certainly celebrates diversity. And this is confirmed in its complex ethnic mosaic. The largest ethnic group is the Javanese, numbering some eighty million, living mainly in Central and East Java. Not all Javanese are Muslim, some are Christian and Hindu. The Malays, numbering about fifteen million, play a pivotal regional role. They form the majority of the populations of Malaysia and Brunei - with significant minorities in Indonesia, Singapore, Thailand and the Philippines. There are also two prominent matrilineal societies - in Minangkabau in Indonesia and in Negeri Sembilan in Malaysia.

Southeast Asian Muslim communities have traditionally enjoyed a high degree of inter-ethnic and inter-religious harmony and gender equality. Muslim women have played prominent roles - as queens in 15th century Aceh, as skilled diplomats in 18th century Riau, as rice farmers, market traders and religious teachers. Muslims have lived with Budhists, Christians, and others in relative harmony for centuries.

Militant Muslim movements are historical exceptions, not norms.

Individuals wear these multiple identities quite comfortably. Surin Pitsuwan, until recently the Foreign Minister of Thailand is a respected Thai politician, a Muslim scholar and a leader of the Malay community. Noted Muslim intellectual, Nurcholish Madjid is also an avowed Indonesian nationalist. The network of IAINs (Muslim tertiary educational institutions) enrol thousands of students, who receive a broad-based education in Indonesian and Arabic.

Southeast Asian Muslim majority states -Brunei, Indonesia and Malaysia- also have much to contribute to the experience of institution building. Each has evolved its own unique system, but the common denominator remains the constant political pressure to expand the role of *shari'ah*.

In Brunei this is expressed in the state ideology, *Melayu Islam Beraja* (MIB-Malay Muslim Sultanate). In Malaysia, the main issue revolves around the interpretation of the constitution particularly Article 3.1., which declares Islam as the official religion. In Indonesia there has been a fifty year battle over the inclusion of an additional phrase to the first principle of the state ideology, *Pancasila*, which reads: "Belief in one Supreme God". Some Muslim politicians continue to press for the inclusion of the words "with the obligation for Muslim to follow the *shari'ah*."

Often when there is a territory with a distinct Muslim-majority population, there

are aspirations to be governed according to Islamic precepts. The aspiration to create "Islamic states" in the Southern Philippines Southern Thailand, and Aceh are Southeast Asian examples. Even in countries where separatist movements are not found, such as Singapore, there has been a great deal of accommodation in allowing Muslims separate institutions - for the collection and distribution of alms (*zakat*), the administration of Muslim civil law, etc.

Accommodating these pressures requires delicate balancing acts. Both Malaysia and Indonesia have significant non-Muslim minorities, as well as ethnic divisions. The task is further complicated because most of the Muslim opposition to moderate political parties draws its intellectual sustenance from Pan-Islamism. Only a small minority of Muslims in the Philippines and Thailand support independence aspirations. But such movements serve to illustrate the complexities of membership in the *ummah*.

Finally, despite economic setbacks since 1997, Southeast Asian (Muslim) economies have been reasonably successful in delivering on development, and integrating into the global economy. From the 1970s, Indonesia did chalk up an average of 7% growth per year for thirty years. Muslim governments in Southeast Asia are adept at promoting and negotiating the entry of MNC-investment and managing sophisticated export-led manufacturing sectors. Perhaps it has been an oversight to evaluate Southeast Asian development paradigms without taking into account Islam.

Malaysia is an economic success story. In Malaysia the ruling Malay-Muslim party UMNO, leads a multiracial National Front (Barisan Nasional or BN), comprising non-Muslim Chinese and Indian-based political parties, which commands a two-thirds parliamentary majority. The BN government, which has been in power since the 1950s, has an impressive development track record. Is Malaysia a secular success story, or a Muslim one?

POST-SEPTEMBER STOCKTAKING

Much has been written about how the September 11th terrorist attack has been a wake-up call for the Western world. It is also a wake-up call for the Muslim world. Fundamentalists have been knocked off the moral high ground. The war on terrorism has turned the tables, and moderates now have the opportunity to set the Muslim agenda. The challenge is daunting. Muslim moderates must face in two directions at once. They must look inward, and re-evaluate their position on a global scale. They must also look outward and strengthen a dialogue with non-Muslims.

Before September 11th, Muslims in Southeast Asia lived largely in a self-contained Muslim world. Differences within the *ummah* were rarely acknowledged, or at least not openly addressed. Dialogues with non-Muslims on such matters were even more rare. After September 11th, regional Muslims are being called to take positions, and to make choices.

The immediate Southeast Asian Muslim reaction was a disassociation with the horrific acts of violence in New York and Washington, and a condemnation of those who perpetrated them. Since the bombing of Afghanistan, however, Muslim opinions have crystallized into two pole positions on the war against terrorism - those who support and those who criticize.

Support -sometimes highly qualified- comes from leaders of nation-states. Critics draw their inspiration from Pan-Islamism. The vast majority are silent. Muslims in Southeast Asia are at a crossroads. What path this majority chooses to take in the coming months and years will influence the region's future direction. Southeast Asia's Muslim political leaders are caught between the foreign policy expediency of supporting the American-led coalition, and the domestic imperative of expressing solidarity with Pan-Islamist ideals. They are caught between *realpolitik* and religion.

During an official visit to Washington D.C., which was planned prior to the September 11th, President Megawati was the first Muslim leader to personally pledge support for the US-led war against terrorism. She has paid a political price, as leaders of Muslim political parties -including her Vice President- have criticized her position. Prime Minister Mahathir has been consistent in his reservations. He has been particularly critical of the bombing of Afghanistan. Interestingly, America's biggest Southeast Asian supporter is President Arroyo, who has linked her own campaign to subdue the Muslim separatist South into the global war against terrorism.

The region's non-Muslims have been quick to expand this Muslim debate into a national dialogue. Prior to September 11th, commenting on Muslim affairs was a strictly Muslim preserve. For example, in Malaysia, the Women's Branch of the Malaysian Chinese Association (MCA) recently organized a first-ever seminar on understanding political Islam and more have followed. Led by a revitalized UMNO, and a strident Prime Minister, who is regaining popularity, Malaysia is firming its own national identity as a model moderate "Islamic state".

Vocal critics on the other hand are largely drawn from opposition political organizations student groups religious movements and refugees. They have received the lion's share of press attention, which has focused on their anti-West posturing particularly their attacks on American foreign policy in the Middle East. Vocal critics can generally be described as a "floating mass" in the Indonesian political sense - disenfranchised, disaffected, disillusioned, and with weak access to national political power.

Such critics have yet to address the broader implications of what American leaders have called a long-term, international war against terrorism. Regional political leaders in contrast, have indeed begun to address the long-term implications of a protracted American-led campaign on national sovereignty and security. How will the balance between national sovereignty and international be managed? Indications in Southeast Asia are that there will be bilateral as well as regional dimensions.

ASEAN members have agreed to co-operate by sharing intelligence on the activities of separatists and radicals. It is likely that American demands for national co-operation in tracking down linkages to the al-Qaeda network, or other terrorist groups, will be desensitized through regional buffer-initiatives. The issue of national sovereignty appears to be most sensitive for the Indonesians. This is due to the fluid domestic political situation, where navigating anti-American sentiments has more to do with a failing economy, rather than rising Islamization.

The September 11th carnage has shattered the view that the quest for the forging of a Pan-Islamic utopian *ummah* was largely benign, and confined to "Islamic state" experiments in Muslim-majority states. It will also no longer be possible to ignore the fact that these Pan Islamic models will now have to be measured in context - and not against the secular development yardstick alone. There is a need for explicitly-defined Muslim paradigms. The challenge is for moderate Muslims to now evolve them.

If our Egyptian scholar is correct, and renewal begins in the periphery, then certainly some of these paradigms should emerge from the unique experiences of Southeast Asia. The first step is to begin with finding answers to critical questions, such as:

- Why are Southeast Asian historical examples relevant?
- What is Arab and what is Islamic?
- Which traditional practices are compatible with Islam?

- How has multiracial and multireligious diversity been accommodated?
 - Where does one find appropriate development models?
 - Who should lead, and how should leaders be chosen?
 - How should the forces of globalization be managed?
-

Piracy and the Challenges of Cooperative Security and Enforcement Policy

Hasjim Djalal

ACCORDING to Article 100 of UNCLOS 1982, piracy is defined as an illegal act on the high seas or in any other place outside the jurisdiction of any state. The act of 'piracy' that takes place in waters under national jurisdiction is, therefore, not considered as an act of "piracy", but an act of "armed robbery" or "sea robbery" which should be dealt with exclusively by national state under the principle of coastal states sovereignty and national security.

Referring to this definition, the act of "piracy" within the EEZ could accordingly be understood to be completely within national jurisdiction since the notion of "high sea" is generally understood to be an "area outside" of the EEZ. Yet, since the freedom of navigation is assured in the EEZ in accordance with Article

58 paragraph 1 and Article 87 paragraph 1.a of UNCLOS 1982, it would appear that an act of "armed robbery" in the EEZ would be dealt with under the definition of "piracy".

It is not very clear, however, what is meant by "any other place outside the jurisdiction of any state", except perhaps an area of the seabed or continental shelf beyond the 200 miles EEZ. It would be difficult, however, to contemplate an act of piracy in the bottom of the ocean.

With regard to the piracy itself, Article 100 of UNCLOS obliges "all states to cooperate to the fullest possible extent in the repression of piracy". Article 101 defined "piracy" as:

- any illegal acts of violence or detention, or any act of depredation, committed

for private ends by the crew or the passenger of a private ship or a private aircraft, and directed: (1) on the high seas, against another ship or aircraft, or against persons or property on board such ship or aircraft; (2) against a ship, aircraft, persons or property in a place outside the jurisdiction of any state;

- any act of voluntary participation in the operation of a ship or of an aircraft with knowledge of facts making it a pirate ship or aircraft;
- any act of inciting or of intentionally facilitating an act described in paragraph (a) or (b).

If the act of piracy is committed by a warship or government ship controlled by the crew which has mutinied, the warship or the government ship would be regarded as a private ship which has committed piracy and therefore would be subjected to the rules of piracy (Article 102). A ship or aircraft would be considered a pirate ship or aircraft if it is dominated by persons who have the intention to use the ship to commit act of piracy (Article 103). The ship may retain its nationality, although it has become a pirate ship, depending upon the law of the state which has granted its nationality in the first place. A pirate ship on the high seas or in any other place outside the jurisdiction, of any state, the pirates, and the property on board maybe seized. The penalties to be imposed as well as action to be taken with regard to the seized pirate ship would be determined by the court of the state which carry-out the seizure (Article 5).

Yet, if it can be proven that the seizure has been effected without adequate grounds, the states making the seizure shall be liable for any loss or damage caused by the seizure (Article 106). A seizure on a count of piracy may be carried out only by warship or military aircraft, or other ship or aircraft clearly marked and indentifiable as being on government service and authorized to that effect (Article 107). It appears from this article that warship or military aircraft are allowed to carry out the act of seizing pirate ship on the high seas simply by the fact that they are warship or military aircraft without need or further authorization, while other ships or aircrafts being on government service can only do so if they are authorized to do so by the flag state.

In recent years, it has been widely reported that the waters of South East Asia and the South China Sea have been invested with piracy. In fact, according to International Maritime Bureau Regional Piracy Center (IMBRPC) in Kuala Lumpur, one third of the worldwide pirate attacks in 1998 took place in or near Indonesian waters, particularly in areas near or in the South China Sea. In the first three months of 1999, 38 out of 66 recorded sea robberies worldwide took place in South East Asian waters, 18 of them in Indonesian Waters and 10 in Singapore Strait. Similarly, 66 out of 67 people murdered at sea in 1998 occurred in Southeast Asian waters. Substantial robbery incident also took place in the Sulu Sea. From 1996 to 1998, there were 11 cases of sea robberies in the Malaysian maritime zone in the

South China Sea area. There are several reasons for this "negative development" after some improvement in previous years. Those are:

- Economic crisis. Indonesia has cut its military spending sharply following the East Asian financial crisis in mid-1997, particularly since 1998. Perhaps because of that pirates are also becoming bolder and bolder.
- The difficulties in coordinating an effective maritime law enforcement mechanism.

In Indonesia there are plenty of Agencies involve in the enforcement activities at sea, although they are being coordinated for the last couple of years by the *Bakorkamla*, a Coordinating Agency for Security at Sea, commanded by the Commander of the Armed Forces. Practices indicated, however, that it had not been easy to coordinate the activities of the various law enforcement Agencies. Lately, there have been a lot of discussions reviewing the efficiency and effectiveness of *Bakorkamla*, particularly since the separation of the Police from the Armed Forces. A number of proposals have been made, such as the division of the function of maintaining "national security" (which should be the responsibility of the TNI-Indonesian Armed Forces and the "law enforcement" at sea which should be the responsibility of the Police), and a proposal to delegate the function to the Coast Guard (so far Indonesia has no Coast Guard as such). None of these proposals have yet been approved.

In Malaysia, there are seven agencies that are authorized to enforce the various maritime legislations, the Royal Malaysian Police (Marine), the Fishery Department, the Royal Customs and Excise, the Marine Department, the Royal Malaysian Navy (RMN), the Department of Environment, and the Immigration Department. All these Agencies, except the RMN who only give assistance, are principle guardians of specific legislation and conduct their own operation in their own designated area of responsibility. The RMN and the Royal Malaysian Air Force, however, are responsible for the conduct of operations and surveillance over the Malaysian EEZ while other Agencies are responsible for the areas closer to the coastal areas within the territorial sea. Since 1985, Malaysia has established a Maritime Enforcement Coordination Center (MECC) under the National Security Division of the Prime Minister's Department. The MECC monitors all maritime activities and compiles information for distribution to relevant maritime enforcement agencies. It does not, however, exercise any command or control function over any of the Agencies.

In Thailand there have been a number of armed robberies in the Gulf of Thailand and in the Andaman Sea, although the number is not as widespread as in other areas in Southeast Asia. The Royal Thai Navy, in addition to defending the country, also protecting the country's maritime and aiding other Agencies in implementing their respective areas of responsibility. The Royal Thai Navy has established the Coast Guard Command for the purpose of

law enforcement and aiding people in its territorial sea and contiguous zone.

The risk of piracy and armed robberies are also getting bigger and more dangerous while they are bad crimes in themselves, endangering the safety of human lives. The act of armed robberies also endangers the navigation of the ships, particularly the danger of collision or grounding if the ships are forced to navigate under abnormal condition.

At the same time, the danger to maritime environment is also increasing sharply if the act of armed robbery or piracy involves oil tankers, particularly the big one. These dangerous are multiplied in the area of the Straits of Malacca and Singapore and the South China Sea where more than 600 ships navigate a day - many of them continue to or come from the South China Sea area.

While each country in Southeast Asia is strengthening their restrictive enforcement Agencies, they have also been cooperating with each other, such as:

- The 1992 Indonesia-Singapore Agreement on coordination of patrols and hot pursuit to combat piracy armed robbery at sea. This Agreement has been very instrumental in reducing the armed robbery in the Strait of Singapore, at least until the economic crisis in Indonesia in 1998. The experience has also indicated that for the Agreement to be more effective, there is a need to intensify Police activities on land in view of the fact that the armed robbers or pirates are based on land;
- There has been a similar arrangement between Indonesia and Malaysia under the auspices of the General Border Committee (GBC) which was established in December 1992, which has also operational coordinating border arrangement (Maritime Operation Planning Team) to discuss and map out strategies to deal with maritime issues arising out of the common border. This has also enhanced bilateral cooperation between the two countries in combating illegal activities. The coordinated maritime patrol operations carried out by Malaysia and Indonesia in the Straits of Malacca in Order to deal with armed robberies and other illegal acts at sea have been instrumental in promoting the efforts for this purpose;
- The Malaysia-Philippines Border Patrol Coordinating Group (PCG) has also been established in which or through which the enforcement Agencies of Malaysia and the Philippines conduct border patrol operations in the maritime areas for the prevention of armed robbery and illegal activities at sea. Under the arrangement, all border patrol operation carried-out shall be accordance with the law and regulations of the respective countries and in conformity with International Law. The coordinated/combined operations for the haste proven to be able to curb cross border illegal activities and armed robberies between the two countries.

There has also been similar cooperation between Malaysia and Singapore in

which the Police Department of the two countries provide a forum to share and discuss maritime issues and criminal activities affecting both countries. The Royal Thai Navy has also tried to build up good relations with its neighbors for the purpose of protecting mutual interest at sea. The RTN and the RMN have conducted joint patrols along their sea boundaries, both in the Gulf of Thailand and Andaman Sea, to prevent armed trafficking and other illegal acts at sea. With Vietnam, Thailand has also reached maritime boundary Agreement which has helped to solve problems facing the two Navies in the past. With Myanmar and Cambodia, there have not been much progress in this regard.

Several attempts have also been made to look into this matter regionally. One of them has been the attempt by the Workshop on Managing Potential Conflicts in the South China Sea, which had begun to look into the matter since the 1st Workshop in Bali in 1990 within the context of promoting safety of navigation, shipping and communication in the South China Sea.

In the Second Workshop in Bandung in July 1991, it was agreed that the areas of cooperation in the South China Sea "may include cooperation to promote safety of navigation and communication, to coordinate search and rescue, to combat piracy and armed robbery, to promote the national utilization of living resources, to protect and preserve the marine environment, to conduct marine scientific research, and to eliminate illicit

traffic in drugs in the South China Sea". In the 3rd Workshop in Yogyakarta in 1992, it was decided that the problems of safety of navigation should be further discussed within a Technical Working Group on Safety of Navigation, Shipping and Communication (TWG-SNSC) in order to study the problems more carefully so that the possibilities for cooperation in the various areas identified during the 1st and 2nd Workshop could be advanced.

Due to the several technical difficulties in organizing the meeting of the TWG-SNSC, the First TWG-SNSC could only be held in Jakarta in October 1995. Several topics were discussed in this meeting, particularly:

- Exchange of information and data on safety of navigation, shipping and communication, including improvements to radio beacon system and weather information and networking;
- Education and training programs for mariners;
- Development of contingency plans and SAR network;
- Cooperation in hydrographic plans and oceanographic surveys;
- Cooperation in combating piracy, illicit drug trafficking, and problems of refugees at sea.

Since 1995 some agreements have been made on the following points:

- Cooperation on the SNSC is desirable and possible despite unresolved territorial and jurisdictional issues;

- UNCLOS 1982 and IMO Conventions provide a useful framework and basis for efforts to deal with the complex navigational, shipping and communications issues in the South China Sea;
 - Governments in the South China Sea region should accede to IMO Conventions and Agreements pertaining to SNSC;
 - South China Sea states should adopt Tokyo MOU on Port State Control in the Asia Pacific region;
 - Priorities, such as training and improving the competence of seafarers, the corresponding development of ships regional facilities and implementation of information system require further discussion.
 - To hold a special meeting of experts in the field of training of mariners to discuss the point presented at the Workshop pertaining to cooperation and coordination in the training of seafarers among the South China Sea states and Workshop participants;
 - To enhance multilateral cooperations and coordination among SAR agencies in the South China Sea;
 - To urge relevant authorities to delimit their respective area of SAR responsibilities which in some cases do overlap, with a view to enhancing the efficacy of a coordinated and well-linked SAR operations in the South China Sea;
 - That the authorities in the South China Sea consider the possibility of establishing a regional ship reporting system and transponder system for location, the position of ships in the interest of safety of navigation,
 - That the relevant authorities draw up a SAR Plan for the South China Sea taking into account the proposals made at the SAR Meeting in Tokyo in December 1986;
 - Enforcement officials of the South China Sea Workshop participants should discuss how to deal more effectively with piracy issues and weather and in what way the TWG-SNSC can facilitate such cooperative ventures.
 - The following participants were assigned the task of preparing initiatives or studies as follows: (1) Singapore for Education and Training of Mariners; (2) Malaysia for Unlawful Activities at Sea and SAR; (3) Chinese-Taipei for Exchange of Hydrographic Data and Information; and, (4) China for Contingency Plans of Pollution Control.
- The result of the TWG-SNSC was reported to and discussed in the 6th Workshop in Balikpapan in October 1995 which endorsed them and agreed to convene the Second TWG-SNSC to continue the work in this field. The 2nd TWG-SNSC was held in Bandar Seri Begawan in October 1996. The meeting further discussed the topics identified in the 1st TWG-SNSC, particularly the 4 assignment identified above. On Unlawful Activities at Sea and SAR, the 2nd TWG-SNSC agreed to commit the following points:

- Unilateral efforts should be continued and strengthened;
- Bilateral cooperation should also be continued and enhanced;
- Experts Meeting should be convened to address regional arrangements on both SAR and Unlawful Activities at Sea;
- The possibility of holding a regional forum on SAR with the support of the appropriate authorities should be discussed;
- The exchange of data and information on Unlawful Acts at Sea should be enhanced in the region. This may be done in cooperation with the IMB-RPC in Kuala Lumpur as the focal point for the collection of information regionally;
- A meeting should be held to consider how to operationalize the following suggestions: (1) SAR training exchanges; (2) Exchange of officers; (3) Exchange of SAR operating manuals; (4) Possibility of joint exercises; (5) Exchange of visits by SAR officials; (6) Possibility of devising multilateral or bilateral SM Agreements; and, (7) Possibility of acceding to maritime SAR Convention 1979.

The 3rd Meeting of the TWG-SNSC was held in Singapore in October 1998, following the decision of the 8th Workshop in Puncak, Indonesia in December 1997. The Singapore Meeting agreed to recommend to the 9th Workshop in 1998 that a GEM (Group of Experts Meeting) on SAR and Unlawful Acts at Sea be established and convened to discuss,

among others, the issues enumerated in the Second TWG-SNSC.

The Singapore meeting noted the existence of a trilateral agreement between Indonesia, Malaysia and Singapore to eradicate piracy and armed robbery as well as illegal acts at sea in the South-west¹ part of the South China Sea. It also noted that this effort has significantly reduced the illegal acts in that area at least before the economic crisis in East Asia. The Meeting requested the participants from the three Authorities to prepare a briefing note on the modalities of the arrangements so that the Authorities concern can consider the possibility of developing similar arrangements in other parts of the South China Sea. The Meeting also considered establishing contact with the IMB-RPC office in Kuala Lumpur.

The Singapore meeting recommended to the 9th Workshop that two meetings be convened in 1999 on this matter, namely the 3rd Meeting of the GEM-Hydrographic Data and Information Exchange (HDI) and the GEM on SAR and Unlawful Acts at Sea. The 9th Workshop in Ancol, Jakarta, in December 1998 approved the recommendation that the GEM on SAR and Unlawful Acts at Sea was held in Kota Kinabalu, Sabah, Malaysia in June 1999. In this Meeting, the topics enumerated in the previous TWG-SNSC, as indicated above, were further discussed with a view to looking for and devising cooperative efforts in those fields in the South China Sea. In addition, it was hoped that Indonesia, Malaysia and Singapore could brief the meeting

on the tripartite arrangement against illegal acts at sea in the Straits of Malacca and Singapore, and the outcome of developing contact and networking with IMB-RPC office in Kuala Lumpur.

The 1st Meeting of the Group of Expert on SAR and Illegal Acts at Sea in the South China Sea at Kota Kinabalu, Sabah, among others:

1. Urged participating Authorities around the South China Sea to become party to the relevant IMO Conventions, particularly the 1976 International Convention on Maritime Search and Rescue and the 1988 Convention for the Suppression on Unlawful Acts Against the Safety of Maritime Navigation (USA convention) in which most of the Southeast Asian countries participated (point 10.b at the Kinabalu Statement).
2. Encouraged participating Authorities to take measures to implement the provisions of the UNCLOS 1982 regarding Search and Rescue and Illegal Acts at Sea, particularly article 98 on SAR, articles 100, 105, 107 and 110 on Piracy, article 108 on Illicit Tracking in Drugs, and article 99 on the prohibition of transportation of slaves, (point 10.h of the Kinabalu Statement).
3. Encouraged the participating Authorities to identify clearly their enforcement Agencies at the local level for reporting acts of piracy and other illegal acts at sea, with a view to expediting and facilitating measures against illegal acts at sea (point 10.i of the Statement).
4. Recommended that the 4th Technical Working Group on Legal Matters

examine the Draft Regional Agreement on Cooperation in Combating Acts of Piracy and Armed Robbery Against Ship, contained in Annex 5 of the Report of the IMO Regional Seminar and Workshop on Piracy and Armed Robbery Against Ship, held in Singapore in February 1999 and consider its relevant to the South China Sea region (point 10.j of the Statement).

5. Requested the South China Sea Informal Work, Group (SCS-IWG) in Vancouver and the Center for Southeast Asian Studies in Jakarta to obtain more information with regard to illegal acts at sea from the International Maritime Organization and the International Maritime Bureau, to be circulated to all participants (point 10.k of the Statement).

Recommending the 10th Workshop on Managing Potential Conflicts in the South China Sea that the 2nd Meeting of the Group of Experts on SAR and Illegal Acts at Sea be convened in 2000 to assess the progress achieved on the above recommendations as well as to discuss further means to promote cooperation on this matters in the future. (point 10.l of the Statement).

The 4th Meeting of the Technical Working Group on Legal Matters in the South China Sea, held in Koh Samui, Thailand, September 27-28, 1999, discussed the Recommendations of the 1st Meeting of the Group of Experts on SAR as requested above and agreed to recommend to the 11th Workshop that "a

group of Legal and Technical Experts be convened to examine the ASEAN-SAR Agreements, the IMO 1999 SAR Convention, the pertinent provisions of the UN Convention on the Law of the Sea, 1982, and Annex 5 of the Report of the IMO Regional Seminar and Workshop on Piracy and Armed Robbery Against Ship, held in Singapore in February 1999, and to consider their relevant to the South China Sea region" (point 15c Koh Samui Statement).

The 10th Workshop in Bogor, 5-8 December 1999 discussed and endorsed the reports and recommendations of the Kinabalu Meeting and agreed to give priority to the GEM on SAR and Illegal Acts at Sea to deal with the problems of combating and armed robbery against ships, and enhancing SAR arrangements in the South China Sea region (point 11 of the Bogor Statement). In fact, the 10th Workshop agreed that the 2nd Meeting of the Group of Experts on Search and Rescue (SAR) and Illegal Acts at Sea on the suppression of piracy and armed robbery at sea and SAR be held in 2000. Unfortunately, however, due to budgetary problems and pressure of activities the 2nd Meeting of the GEM on SAR and Illegal Acts at Sea as well as the Group of Legal and Technical Experts to examine the existing Conventions as requested by the 4th TWG-LM in Koh Samui, have not yet convened.

In the author's observation, any effort to intensify law enforcement, whether on land or at sea, would have to consider at least seven factors:

1. The law itself must be clear and should not give rise to various conflicting interpretations. Various legislations in various fields of activities in maritime issues should not be contradictory to each other. The conflicting regulation is very common in some countries and therefore is difficult to implement by the law enforcement agencies.
2. The law enforcement agencies and officials must have sufficient and thorough knowledge of the laws and regulations which they are going to enforce and all of them must be clean of corruption and graft. Otherwise no matter how clear the law is, the law enforcement activities would not work if the law enforcement agencies do not understand what the laws are, especially if they are corrupt.
3. There must be a clear line of command and responsibility in the law enforcement agencies so that accountability could be provided as to what level a disregard for law enforcement would or could be attributed.
4. If in certain countries the law enforcement activities involve a number of government agencies, the division of authority and the coordination of activities must be clearly outlined and well understood by the respective agency so that they would not be overlapping jurisdiction in certain cases or denial of jurisdiction in other cases.
5. As in many other governmental activities the effective law enforcement activities, including at sea with regard to piracy and other illegal acts, would

depend to a great extent to the availability of the 5Ms, namely Man, Money, Materials, Methodology, and Management. If one of these Ms is missing, then the law enforcement activities would in reality be difficult to implement.

6. The support of the people also is essential in implementing any law and regulation. If the law and regulation is contrary to common sense and the general sense of justice and appropriateness of the people, the law and regulation would be difficult to implement, even if the law enforcement agencies are strong. In fact the Government and the law enforcement Agencies could be regarded as "dictatorial" or "totalitarian" by the common people if the laws and regulations themselves do not reflected the sense of justice on appropriateness.
7. The laws and regulations to be implemented should not be against the spirit of good neighbourly and should observe the rules of International Law, including the law of the sea. The law enforcement agencies should also therefore understand and take into account the rules of international law and the various Regional and International Conventions applicable or dealing with those particular issues. Otherwise the rules and regulations to be enforce could be challenged by other states.

In conclusion, the challenges in developing cooperative security and enforcement policy regarding the piracy in our region include:

- How to promote and strengthen the ability of national government to effect a timely and continue response against the perpetrators of piracy and armed robberies at sea. Due to current economic crisis in Southeast Asia, particularly in Indonesia, the need for support to Indonesian law enforcement Agencies to strengthen their capabilities is therefore paramount. The support could be regional or international or from the countries which have direct and specific interest in the matter;
- The promotion of border cooperation between and among neighboring countries is also very important. The efforts to promote solution and agreement on maritime boundaries delimitation between and among Southeast Asian countries therefore should be intensified so that the activities and the area of operation of the various national law enforcement Agencies as well as bilateral and regional cooperation could be clearer and being better implemented;
- Various efforts at regional level to promote regional understanding and cooperation in this area should be supported, either formal or informal. Formally, the draft of Regional Agreement on Cooperation in Combating Acts of Piracy and Armed Robbery Against Ships, formulated under the IMO auspices, should be properly studied and finalized as soon as possible in a way that would be acceptable to the countries in Southeast Asia and the South China Sea. Informally, the initiatives and activities of the South

China Sea Workshop process, particularly the activities and works of its Group of Experts on Illegal Acts At Sea should be supported;

- Finally, within the context of implementing article 100 of UNCLOS 1982 regarding the obligation of all states

"to cooperate to the fullest extent in the repression of piracy", the States of Southeast Asia and the South China Sea should cooperate with the relevant Regional and International organizations, such as IMO, to formulate and take anti-piracy policies and activities.



PEACE BUILDING AND STATE BUILDING IN EAST TIMOR

Edited by Hadi Soesastro & Landry Haryo Subianto

Published by: Centre for Strategic and International Studies (CSIS), Jakarta

This volume contains six papers originally prepared for a Task Force created by the Council for Asia Europe Cooperation (CAEC). The study of East Timor, which was undertaken as a collaboration between scholars from East Timor, Australia, and Indonesia, aims mainly to examine East Timor's challenges and how it can best respond to them.

The first paper written by *Dionisio Babo-Soares* examines the political transition in East Timor. He identifies four types of players that shape the political transformation in East Timor: UNTAET, the East Timorese political community, the ordinary people, and the Catholic church. The second paper by *James J. Fox* presents an assessment of UNTAET's role in building local capacities for the future. The third paper, which was written by *Dionisio Babo-Soares*, discusses law and order, including the management of internal security in East Timor. The fourth paper, presented by *Rizal Sukma*, analyzes East Timor's security challenges. This is followed by a paper written by *Helder da Costa* and *Hadi Soesastro*. They present their views and assessment on the economic development in East Timor and its future challenges. The last paper by *Landry H. Subianto* discusses the role of various international institutions in the process of peace-building and state-building in East Timor.

This volume is recommended for those who are interested in the studies of East Asia and Southwest Pacific, in particular of East Timor.

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Indonesia's Political Reform: Still a Long Way to Go

Tommi Legowo

INTERNAL politics in Indonesia seems to have been stagnant for the last three months (December 2001 - February 2002), as no significant progress has been made by its major political players. On the one hand, the Megawati Administration remains slow in coping with the current problems; on the other, those sitting in the House of Representatives have not been functioning maximally as legislators, but rather busy questioning the executives, which seems to frustrate the latter after all. Even worse, the major political parties become fragmented, as they are respectively experiencing serious internal conflicts. Accordingly, it remains a question whether the People's Consultative Assembly (MPR) is able to manage the completion of constitutional reforms in the forthcoming session in August 2002. Meanwhile, there are only 18 months left for the 2004 general elections to be held.

In spite of those unfavorable pictures, some progresses have occurred in the social sphere, which has bettered public security at the national level. What makes people rejoice is in particular the long-awaited peaceful conditions that have been materialized in Poso and Ambon (Maluku), following the agreements of Malino I and Malino II. The following is aimed to portray the current situation with regard to the political matters.

FRAGMENTATION OF POLITICAL PARTIES

Major political parties are becoming fragmented due to their respective internal conflicts. This happens not only to parties such as PAN (National Mandate Party), PBB (Moon Star Party), and PKB (Nation Awakening Party), but recently also to PPP (United Development Party), the Golkar Party, PDI-P (Indonesian

Democratic Party of Struggle), and PDKB (Nation Beloved Democratic Party). The main cause of the internal conflicts seems to be members' "dissatisfaction" with the parties' leadership, and not so much due to "political-ideological differences". This development could eventually affect coalition building in the House of Representatives and the functions of Megawati's government.

PPP Split

Formerly, PPP was founded in the early 1970s when all Muslim political parties were forced to merge into one party. It has been the biggest Muslim party ever since. Recently, however, some of PPP members have left the party and decided to set up a new faction under the leadership of K.H. Zainuddin M.Z. The new party, which is named PPP-Reformasi, consists predominantly of younger PPP members. They broke up because of two main reasons. *First*, they disagreed with the party's decision to postpone a national congress - instead of 2003, the congress will be held some time after the 2004 general elections. They view this to be a decision based solely on Hamzah Haz's presidential ambitions. *Second*, they were not in favor of the proposal to implement the Islamic Law (*Syariah*) by incorporating the so-called Jakarta Charter into either the Preamble or Article 29 of the 1945 Constitution.

Shortly after the new PPP-Reformasi was formed, Zainuddin announced that five small political parties have joined

this new party to form an alliance in preparation for the next elections. They were the New Indonesia Party (PIB), the Indonesian Muslim Party (PUMI), the KAMI Party, the Indonesian Democrats Alliance Party, and the Republican Party. Led by Zainuddin, PPP-Reformasi is now campaigning for establishing the party's network throughout Indonesia. It has already got considerable support in Java and in some areas in Sumatera.

PKB Split

The Matori faction came into existence when, as PKB chairman, Matori endorsed the replacement of Abdurrahman Wahid, the leader and founder of the PKB, by Megawati as President of the Republic on grounds of administrative capacity. This had made Matori expelled by the party for disloyalty. Despite controversy, both factions of PKB, one chaired by Defence Minister Matori Abdul Djalil and the other by former Foreign Minister Alwi Shihab, finally have held their respective national congresses. The two congresses, however, did not produce any reconciliation.

In this case, Matori's faction seems to have considerable strength, arousing speculations that it has received support from Megawati and the military. Meanwhile, the PKB faction led by Alwi Shihab gains continuing supports from the Nahdlatul Ulama (NU), which is its traditional support base. The congress held by Shihab's PKB has resulted in significant amendments to its statute. One is to make a clear-cut division of power

between the party's consultative board, which Wahid chairs, and the executive board chaired by Alwi, so that the consultative board -and therefore, Wahid himself- will no longer play a decisive role in policy making.

The change in Shihab's PKB was meant to empower the executive board to be able to manage the party in a more effective manner as the consultative board will now deal only with macro policies. The executive board is responsible for day-to-day policy making. Some have argued that with this change, Abdurrahman has been pushed aside. In fact, Shihab's PKB has politely driven Abdurrahman to retire gracefully. Others have maintained that in view of Abdurrahman's character, he will not voluntarily resign from politics and will continue to interfere directly or indirectly in the party's macro as well micro policies. They believe that he is using Shihab's PKB as his political vehicle to regain the presidency in 2004.

As reconciliation is not in the cards, it is the court that will decide on which faction will maintain the official name of PKB. This will take time that may prevent them to be able to concentrate on preparation for the election of 2004. Abdurrahman has indicated that he would not be bothered if Shihab's PKB changes its name to, for example, PKBA (A stands for "*asli*", meaning original). Matori's side made no indication for such possibility. If either side is willing to change the party's name, the conflict can be solved more readily.

Golkar and Its Current Problem

Golkar's chairman, Akbar Tandjung, is generally regarded as one of Indonesia's most consummate politicians and administrators, and who has had his eye on the presidency for some time. Unfortunately, however, he has found himself embroiled in a financial scandal over the alleged misuse of government funds for Golkar's campaigning during the last elections. He is being investigated by the Attorney General's Office (AGO). While the parliament will decide on whether it will conduct its own investigation into the case by 7 March 2002, the AGO has already named Akbar a suspect.

A guilty verdict would bring strong demands for Golkar's dissolution. In a move to defend itself, Golkar set up a Party Salvation Council, whose main task is to distance the party from Akbar and, perhaps, to find a way for the party to remove him from the chairmanship. The council is headed by former minister for manpower, Cosmas Batubara. However, the countermove in a Golkar's leadership meeting, initiated by Akbar's supporters, resulted in a full support to maintain Akbar leadership in Golkar, and undermined the significance of the Council. There is a strong feeling among observers that in the end the case will be withdrawn.

PDI-P's Another Obstacle

There are strong indications that some members of President Megawati's PDI-P are becoming increasingly restless over the growing influence of Megawati's

husband, Taufik Kiemas, who is also a member of the parliament. Kiemas is considered as one influential factor in the party and the present government. He is formerly a wheeler-dealer businessman and he has brought a lot of similar types into the party. He would also have his eyes on Golkar with a view to attracting sections of that party should it look like breaking up in the wake of the Akbar affair. Megawati was seen as a champion of the people. But, now that the PDI-P is the leading party in the government, its image is changing for the worse, partly due to the activities of Taufik and his tycoon friends.

In the last couple of months, PDI-P was hit by resignations from head of the party faction in the MPR, Sophan Sophian, and key advisor and former party chairman Dimiyati Hartono. Rumours also circulated that other key party members such as deputy secretary general, Haryanto Taslam, and former secretary-general, Alexander Litay, are leaving. It does not seem, however, that the resignations will break PDI-P apart. If anything, this is probably a sign that the 2004 election will be colored by more fractions.

Such a development resulted in a call for Megawati to step down from her role as the party's leader in order to maintain the party's unity. The issue apparently is that as President, Megawati does not have sufficient time to devote to party's matters. Amien Rais, whose ambition to become President has been clear for years, stated that he is willing to step down from his chairmanship

of his party, PAN, and plans to consult faithfully with the party on this issue. Amien seems to be throwing down the gauntlet to Megawati. The debate looks like part of the normal "give-and-take" practice of the democratic process. It does not seem that Mega is stepping down from PDI-P in any event. In fact, Amien Rais too was prevented by his party members to step down.

POOR PERFORMANCE OF THE PARLIAMENT

The internal conflicts of major political parties have impacted on the performance of the parliament. At least, the split and conflicts have fragmented members of parliament, not only at the national but also at the local level, into many political groupings. The obvious impact is a neglect to undertake policy consolidation of the parliament. This has resulted in the parliament's poor performance in responding to public issues and social problems. Many members of parliament have to concentrate their work on their own political parties rather than on the parliament for the sake of people at large.

Preparations for the 2004 general elections also take much of the parliament members' time. Most discussions in the parliament are focused on the coming general elections rather than on Indonesia's complex problems. They tend to avoid dealing with sensitive policy issues that may affect their popularity. For that reason, many important policy issues remain unresolved.

During 2002, the parliament has scheduled to deliberate on 100 new legislations. In the political realm, this includes legislations on general elections, structure and membership of MPR, DPR, DPRD and DPD, and on political parties. There are also 22 drafts on new regions of provinces and districts. These political bills will be the main concentration of the parliament in the months ahead. Many are doubtful that the parliament can complete its schedule by the end of 2002. This was also the case in 2001. Of the 100 legislations, 50 percent of which dealt with economic issues, only 40 percent were successfully deliberated.

CRUCIAL REFORM AGENDA OF THE MPR

The main agenda of political reform is constitutional reform. Its main aim is to establish a "new basic law of the state". Many hope that the process of constitutional reform would involve the participation of society. Also, the substances of reform should be oriented towards maintaining the unity of the nation of Indonesia, establishing a democracy, and promoting the prosperity of Indonesian society.

This process of constitutional reform, which began in 1999 with the first amendment, is scheduled to be completed in August 2002 when the MPR holds its annual session. The MPR Ad Hoc Committee 1 is now drafting the fourth amendment to the 1945 Constitution. The draft consists of several controversial articles, namely on the role

of the MPR in the presidential election process, the mechanism of direct presidential election, and the relationship between state and religion. The last point refers to the issue of the inclusion of the so-called Jakarta Charter (implementing Islamic Law/*Syariah*) in the Constitution. The Ad Hoc Committee 1 is pretty sure that all these controversial articles can be managed through political lobbying.

There are a lot of disagreements in the society, apparently not only with the process but also with the substance of the intended reform. Scholars and the Coalition of NGOs have concluded that the process is not participatory and that the substances of the reform serve the short-term interests of major political parties. For that reason, they suggest that the MPR re-start the process. They propose the establishment of an Independent Commission of Constitutional Reform.

MALINO PEACE ACCORD FOR MALUKU

Religio-ethnic conflict in Maluku that broke out in January 1999 has killed thousands of people and forced hundred thousands of people to flee their homeland. The (first) Malino peace accord that was signed in February 2002 is an initial road to bring a peace in Maluku. The 11-points agreement includes the ending of all forms of conflicts, upholding the supremacy of law, opposing the presence of armed groups, and establishing an independent team to conduct a thorough investigation.

A number of problems require serious considerations. The *first* is the problem of armed militia on both conflicting parties. The majority of these armed militia came to Maluku from the outside as they felt that their co-religionists were under threat. The presence of Laskar Jihad in May 2000 was triggered by the killing of hundreds Muslim residents in Tobelo, North Maluku. The conflict of Maluku deteriorated, following the entry of militia groups from the outside. The government troops aggravated a worsening situation in Maluku because they themselves sided with one of the conflicting parties. Another crucial factor was the role of local mass media in provoking the local people, which had worsened the situation. Removing a sense of threat of both sides is a pre-requisite condition, and the role of security apparatus in maintaining strict impartiality is a must. Replacement of existing forces stationed is an alternative way to solve the problem.

The *second* is the establishment of an independent investigation team. This will be another sensitive issue. The team should maintain impartiality, and should not only recommend punishment for the wrong people or person who are being sacrificed to protect those who are truly guilty. *Finally*, a neutrality of local bureaucracy plays an important role in supporting peace reconciliation in Maluku. The idea that the governor should come from a specific area should no longer be maintained. The most important thing is that the governor has a clear concept about how to rehabilitate Maluku and should be untainted by corruption in the past. Civil emergency

that was imposed in June 2001 in Maluku will be revoked, if the civil situation is improved. The Malino peace accord for Maluku is a good start to end sectarian conflicts in Maluku and in any other conflict-ridden part of Indonesia.

ISSUE ON INTERNATIONAL TERRORISM

The reconciliation process to end sectarian conflicts in Poso and Ambon has improved the country's security affairs. But a number of questions remain: (a) Do those conflicts represent local conflict or do they result from political conspiracy among the conflicting elite following Soeharto's down fall? (b) Does any of the conflicting groups have organizational link with international terrorism as previously perceived by Hendro Priyono, the head of the national intelligence? (c) Are there international pressures to dismantle international terrorist links with local organizations in Malaysia, Singapore, Philippine and Indonesia?

International terrorism has become a sensitive issue in Indonesia. Singapore and Malaysia have arrested a number of suspected Islamic militants, some of them are from Indonesia. The Philippines has arrested an Indonesian on suspicion of being an explosives expert for the Jamaah Islamyiah group that was planning a bombing campaign against US targets in Singapore. Regional security officials believe suspected terrorist cells busted in Singapore, Malaysia and Philippine are directed by leaders in neighboring Indonesia. Singapore Senior Minister, Lee Kuan Yew, stated that

his country remains at risk from a terrorist attack because leaders of regional extremist cells were still at large in Indonesia. Lee's statement has encouraged strong protests by Indonesia's Muslim hardliners. To be consistent in dealing with international terrorism is a serious challenge for Megawati's leadership.

PROBLEM OF THE MILITARY

The Commission of Inquiry into Human Rights Violations (KPP HAM) was formed by the National Commission on Human Rights (KOMNAS HAM) on 27 August 2001 to investigate possible human rights violations in a number of bloody tragedies, namely Trisakti, Semanggi I, and Semanggi II. The inquiry commission has summoned military and police generals who were believed to be responsible for the tragedies. Unfortunately, they have refused to comply with the summonses. They argue that KPP HAM was illegal because it is not stipulated in Law No. 26/2000 on human rights tribunals. The untouchable generals are able to avoid the legal process.

Another crucial issue is the politics behind the reshuffle of high-rank military officers on 15 February 2002. The TNI reshuffle surprisingly promoted a number of generals suspected of human rights abuses. Among these are Adam Damiri, the former Udaya Military Commander, Tono Suratman, the former commander of East Timor Wiradharma Military Resort, and Sjafrie Sjamsuddin, the former Jakarta Military Commander. Adam Damiri and Tono Suratman were accused of being responsible for the scorched

earth actions and murders in East Timor after the August 1999 referendum. Sjafrie Sjamsuddin was accused of being responsible for the violence of May 1998 that led to the death of several university students and many other victims of the chaos in Jakarta.

Many believe that Sjafrie was also one of the key military figures involved in the preparation and establishment of pro-Jakarta militia groups in East Timor in the run-up to the United Nations-sponsored referendum. More than three years after the Jakarta violence of May 1998, the tragedy has remained unresolved. Investigations into human rights abuses that occurred around that time are still underway, and Sjafrie Sjamsuddin is among the top military officers whom the inquiry commission (KPP HAM) on the Trisakti, Semanggi I, and Semanggi II incidents has summoned to appear. But, he as well as other suspected generals refused to cooperate. Instead, he has been promoted as the new military spokesman replacing Rear. Adm. Graitto Usodo. The appointment of Maj. Gen. Sjafrie Sjamsuddin in such a strategic position has aroused a debate in the public.

UPDATES ON DECENTRALIZATION

After one year of the implementation of the decentralization and regional autonomy program, the Government is preparing a revision of the Law 22/1999 on Regional Government. Since the revision is so fundamental and deals with the basic assumption or philosophy of decentralization and autonomy, it may result in the total change of the Law. The revision replaces the principle of wider

autonomy as contained in Law 22/1992 with the principle of decentralization of government administration.

Because of that fundamental change, many argue that the government is trying to re-centralize Indonesia, which means to re-take the regional authority that has been enjoyed by the region under Law 22/1999. For that reason, many regional associations, such as APEKSI, APKASI, and ADEKSI have opposed the revision. Strong opposition also comes from the architect of the Law 22/1999, Prof. Ryass Rasyid, who argues that the revision draft means changing, and not revising, Law 22/1999.

The four contentious points of the revision draft are as follows. The *first* is on the regional authority. It is not the authority but activities (business) that is transferred to the regional government. *Second*, there is no longer regional authority on the maritime. The authority to

manage the maritime is taken back to the central government. *Third*, Governors, Regents and Mayors have no authority to appoint regional secretaries. Again, the authority is taken back to the central government. And, the *fourth* is on the status of local parliament (DPRD). Local Parliaments are no longer acting as local representatives bodies, but merely as "local regulator bodies".

The government has not yet officially delivered the draft revision to the DPR. It means that there are still possibilities of revising the draft itself given the negative responses to it. Moreover, it seems that whatever the revision draft of Law 22/1999 would look like, it will be the DPR that makes the final decision. However, it will be wiser if the revision draft is not deliberated on, and even decided on until Indonesia has already completed the process of constitutional reform.

Socio-Political Security Improved, Albeit Insignificantly

Medelina K. Hendytio

DURING the last three months the government has made a number of achievements through which political momentum could actually be gained. One of these achievements particularly was related to current economic

decisions, which have brought about a relatively stable condition. In social sphere, conflicts that are rooted in religious and economic distrust amongst society had declined gradually, making the security throughout the country generally improve.

In spite of such positive developments, recurrent tension still prevails in the conflicting areas with the Malino agreements keeping a tenuous peace in Poso, Central Sulawesi and Ambon in the Maluku. In sum, the overall picture of the socio-economic development remains unchanged, as the stable condition veils several problems which could explode any time and turn the situations into disorder if it is mishandled.

In political sphere, the rivalry among political elites seems to have escalated, since they are concerned more about consolidating their position ahead of elections in 2004 than taking any bold steps to resolving the existing political and economic problems Indonesia has long been faced with. The visit of Hamzah Haz as a Vice President to the detained commander of the Laskar Jihad Muslim group, Ja'far Umar Thalib, in his cell at the National Police Headquarters -which clearly neglected the government's efforts to uplift rule of law- was one example of political party's interest in winning the coming general election. Thalib was arrested on 4 May 2002 at Surabaya's Juanda Airport on charges linked to the Soya attack in Ambon, Maluku on 28 April 2002, which took the lives of 12 people. He has also been charged with insulting President Megawati Soekarnoputri. Hamzah Haz' visit was questioned by many, including PDIP members and Amin Rais, the chairman of MPR (People's Assembly). Haz stated that there is nothing wrong with visiting someone in trouble and offering sympathy, and he also had denied the government intention of intervening in Ja'far's case. However, his position as vice president had made his

visit controversial and at the same time had put pressure on the police, although in fact the latter had concrete evidence to arrest Ja'far.

The visit became more controversial since there was a speculation that by visiting Talib, Haz as the chairman of the country's third largest political party (The United Development Party) had started his premature campaign for the next general election. Some parties were concerned that his visit is aimed at getting support from Thalib's followers because Thalib is his constituent. Haz ambition will jeopardize the police job as political pressure could lead to Ja'far's release. In this case, PDIP is waiting for an explanation of the purpose of the visit.

Rivalries among political elites also took place in the case of the United Development Party which continues to face internal conflict. Some of its influential members again demanded that a Party Congress be held in 2003 before the general elections. In the proposed congress, there is a possibility that Hamzah Haz, the party's current chairman, could be removed. This would reduce, if not eliminate, Haz' chances to run for president in the 2004 general election. Hamzah Haz had rejected earlier a similar demand by the influential Zainuddin MZ. The refusal had led to the breaking up of the party, resulting in the formation of a competing party (PPP-Reformasi) chaired by Zainuddin MZ.

The divide of views among political parties in the parliament also emerged in the Bullogate case, particularly with regard to the establishment of special committee to investigate Akbar Tanjung's involvement

in the misuse of Bulog fund. Once again, this shows that each political party has its own agenda, which makes them fail to meet the expectation of people who have been desperately waiting for government's political will to combat corruption.

Meanwhile, conflicting views on the constitutional reform process and greater public pressure for the establishment of constitutional commission have indicated the political elites' incapability of providing immediate response to the changing political and social aspirations of people. This case also demonstrates that the Special Committee on Constitutional Reform of MPR has failed to accomplish their tasks to amend the constitution. Further delays in the process would likely deprive the country of what are seen by many observers as much-needed reforms, especially in creating a more democratic political life.

Based on the above cases, there is a widespread perception that the elites do not have sincere willingness to bring fundamental and significant progress in economic recovery and development. Instead, they have offered a shadow play intended mainly for securing their power and position as any single action and statement is merely based on the calculation whether or not it serves their group interest. This situation was worsened by the fact that the Government does not enough courage to take unpopular policies which may in turn threaten their power and position. The political willingness of President Megawati, which was stated earlier, to combat KKN seems not supported by the system around her and was hindered by her follower's fear that she will lose her presidency before

her term of office ends in 2004. This fear has made her difficult to take serious and firm action to every parties involved in KKN especially to those who have capacity to challenge her power. As a result, abolition on corruption, collusion and nepotism, human rights and murder trials of prominent Indonesians as well as peace building in the area of conflict were proceeded apace. However the outcomes in most cases quite uncertain because they have not been handling properly. In sum, the law enforcement and rule of law could hardly achieve a significant improvement.

Several issues that have significant impacts on the political development will be discussed below.

DEVELOPMENT OF BULOGATE

A significant development of the Bulogate case occurred when Rahardi Ramelan, who was the former head of Bulog during Habibie's presidency, was surprisingly detained at Cipinang Penitentiary. Ramelan was named suspect of the illegal use of Bulog funds. However, the Attorney General has since been under criticism because no satisfactory explanation was given why Akbar Tanjung, the Speaker of the DPR remains untouchable, despite the fact that he has also been named the prime suspect in the scandal. This criticism became irrelevant and public was caught by surprise when Akbar Tanjung was finally detained. This situation raised a hope that Megawati's government take a new start in combating Indonesia's acute corruption. The fact that Akbar Tanjung, head of the powerful Golkar Party, was detained for allegedly

misusing US\$8 million for general election purposes brings some relief for the previous pessimism when the parliament failed to establish the special investigative committee on the Bulog fund saga.

The proposal for the establishment of the investigative committee has been postponed. During the parliament's 4th session, the majority in the parliament who are supported by the dominant parties namely Golkar and PDIP concluded that the special inquiry for the Bulogate was not necessary arguing that the case has been handled by civil court. This situation shows that Golkar's continuing importance to the Government has impacted on the legal process. There is a suspicion that Megawati's party PDI-P was able to reach an agreement with Akbar Tanjung's Golkar within the parliament, which means that other parties such as PKB or PAN will be too weak to continue their efforts to set up the committee. In this case, PDIP stated that they will let the civil court continue to see that rule of law is implemented.

In spite of public criticism against their slow action, Megawati's government seems determined to gradually settle other corruption cases. The cases involving the former powerful minister Ginanjar Kartasasmita (now the vice-chairman of People's Assembly) and Subiakto Tjakra-werdaya (former minister of cooperative and small and medium enterprises under Soeharto) will be re-opened by the Attorney General office. Another big corruption case involves the president director of McDonald Indonesia Bambang

Rahmadi, who is the son-in-law of former Vice President of Indonesia Sudharmono (1988-1993). Recently the Jakarta City Police named Bambang Rahmadi a suspect. This IDR\$40 billion graft case involves the state-owned social security company, PT Jamsostek. Rahmadi allegedly used Jamsostek's fund to expand his McDonald Company but failed to return the money when the deadline came.

Under the optimistic atmosphere that the rule of law will be restored, Akbar Tanjung's trial continued. Akbar Tanjung's case has also become a test for Megawati's determination to eradicate corruption. However, Tanjung was released after 3 weeks detention on the guarantee of his wife - creating a surprising and suspicious development. Jusuf Kalla, Coordinating Minister for People's Welfare and a member of the Golkar party, has said that the detention of Akbar Tanjung was purely part of the legal process, which should not be politicized. He goes further that it happens in Indonesia and indicates that anyone, even the DPR Speaker, can be detained. It's a good example," adding that the case would encourage law enforcement efforts in Indonesia. The trial of The House of Representatives' Speaker, which is unprecedented, has been carried out and even moved to the Jakarta Fair ground as the Central Jakarta District court could not accommodate the crowd that wants to attend. Although the trial is still in process people have become suspicious that there was back room deals between PDIP and Golkar to save Akbar Tanjung and to guarantee that Golkar will not muddle up Megawati's term.

From the pessimistic perspective, the trials of political leader in Indonesia are just a shadow play, since they are not carried out genuinely. Although the government has taken the all initial important steps in eradicating corruption, the end result remains to be seen. Yet, the public remains skeptical about the government seriousness in combating corruption. It is important to note that the public image on the courts' credibility was also deteriorated. There has been a widespread rumor that judges and prosecutors are easy to be bribed; and equally lawyers sometimes conduct bad practices to win their cases. This is confirmed by Elza Syarif's bribery case, which proves how corrupt the country's legal system is. Syarif, the lawyer of Tommi Soeharto, was arrested because she bribed the witness during Tommy's trial.

CONSTITUTIONAL REFORM: DEAD-LOCK

The People's Assembly (MPR), in its annual session last November, agreed to proceed with the fourth-ever amendment of the 1945-Constitution. An ad-hoc committee was formed to deliberate the 18 targeted articles before the Assembly convenes in August 2002. Nonetheless, so far there have been only six of the 18 targeted articles that have been deliberated by the ad-hoc commission in charge of constitutional amendments (PAH I) including articles on the monetary unit, education, social welfare, the judicial system and the triumvirate of the foreign minister, home minister and defense minister, who are to take charge of the government in emergency situations.

There is growing suspicion that the MPR is not serious about amending the country's Constitution. These suspicions are stemmed from the fact that some lawmakers, including some from President Megawati Soekarnoputri's Indonesian Democratic Party of Struggle (PDI-Perjuangan), have moved to stop the current amendment campaign, arguing that the process has deviated from its original course. This was worsened by the fact that vested political interests began to impede the process from the time PAH I began deliberating the articles in January 2002.

Another factor is the time that has been running fast. There are only four months left before the MPR convenes in August for its annual session, during which the amendments are expected to be endorsed. There is no clear sign on whether the deliberation of all the articles will have been finished by that time. PAH I members have so far failed to agree on articles related to: (1) presidential elections where the presidential and vice presidential candidates fail to gain a necessary simple majority; (2) the composition of the House of Representatives (DPR) and the Assembly; (3) the existence of the Supreme Advisory Council; (3) the revival of the Jakarta Charter on religious issue; and (4) the requirements for a constitutional amendment to take place.

The amendment of Article 2 on the composition of the MPR, for example, has been faced with strong opposition from Functional Groups, or *utusan golongan*, which have 65 members in the Assembly.

The original text of Article 2 (1) of the 1945 Constitution says that the Assembly consists of members of the House, regional representatives, and functional groups. In the proposed amendment, the Assembly would consist of elected legislators and a Regional Representative Council. The possible opposition against this article may also come from military-backed group as military would lose its presence in the Assembly if the amendment was to come into effect. Conservative groups in the parliament also reject the amendment of Article 2.

Many observers believe the poor performance of the PAH 1 is more a reflection of a conflict of vested interests between political factions than the commission members' inability to deliberate the amendments. Conflicting views on the constitutional amendment process even occurred and raised as internal party conflict. In the PDI Perjuangan for example, some of its functionaries admitted that some of its members were attempting to block the amendment process. Whilst others supported the process as stated by one of PDIP chief that basically, PDI Perjuangan has no objections to amending the Constitution. However, Article 29, the Constitution's preamble and the nation's ideology of Pancasila are off limits for changes. He goes further that PDI Perjuangan did not believe Article 29 on religion should be discussed, as any changes to the article could result in the country's disintegration.

Looking at the tough process, a group of NGOs which allied in Non-Government Organization Coalition (Koalisi-

Ornop) demanded the establishment of constitutional commission which is neutral and independent to amend the constitutional. This is mainly to avoid political vested interest and other short-term interests which are directed only to benefiting a certain group or people. It is expected that the new commission will be able to focus on the revision, or otherwise to make a new basic state constitution that is comprehensive in nature and flexible in accommodating development and needs of the Indonesian state in the future. This pressure was rejected including opposition from PDIP. One of the PDIP chairpersons accused that the Koalisi Ornop has their own agenda behind their pressure to MPR. PDI Perjuangan also claimed to have evidence that several foreign-funded non-governmental organizations had intervened in the amendment process. According to PD, it is no longer clear whether they are fighting for the nation's interest or for the benefit of donor countries.

UNRESOLVED AMENDMENTS

Despite controversial public discourse whether the constitutional commission is needed, the amendment process is still on going. The remaining question is whether the all deliberated amendment will be accepted by all political parties during the coming MPR annual session. If so the more important question: how "the revised" constitution will be implemented if some of its articles are conflicting each other. Below is the list of articles that are waiting to be amended:

- Article 2 on the composition of the People's Consultative Assembly (MPR);

- Article 3 on the election of the president by the Assembly if candidates fail to collect the necessary votes (more than half) in the first round of the election;
- Article 6A on the second round of the presidential election if candidates fail to collect the necessary votes in the first round of the election;
- Article 15A on the existence of the Supreme Advisory Council (DPA);
- Article 23D on the need to mention Bank Indonesia clearly in this passage;
- Article 29 on the demand to include the seven words of the Jakarta Charter in this passage;
- Article 31 on the need to accentuate faith and morality in the education system; and,
- Article 37 on the requirements to amend the Constitution. One group wants to require that amendments be approved by two-thirds of the Assembly, another group by three-fourths of the Assembly.

ELUSIVE PEACE IN MALUKU AND POSO

Despite episodic violence, conflicts in Ambon have begun to subside. Some believe that the relatively normal situation was a result of the Malino II peace accord which had been signed by the two opposing parties in mid February this year. However, the pro-peace rally remains alert against efforts to destabilize the new peace in Maluku. Those who

remained skeptical of the peace deal have based their argument on several facts. First, two bombs reportedly exploded in Ambon just one day after the Malino meeting. Two weeks later, serious violence broke out, casting doubts whether peace will last. One person was shot to death when a group of unidentified people attacked a bus carrying 20 people. The attackers fired shots at the bus from all directions. It was not clear which group the attackers belonged to. This incidence was then followed by other several deadly incidents which proved that a number of militant groups continue provoking violence aimed at disrupting the peace pact. They even have launched a campaign to persuade the people to reject it.

Another obstacle to the permanent peace is the capacity of the security apparatus to provide security. Both parties have limited confidence in the security forces to maintain order and to protect them. Local speculations suggest that some elements in the security forces are tolerating or even supporting continuing low level violence in order to induce property owners to pay protection money.

Another problem is the continued presence of Laskar Jihad. Although the peace meeting has rejected the presence of all militias including Laskar Jihad, the leader of Laskar Jihad claims that they should not leave Ambon because they are Indonesians and intent conduct humanitarian operations. Moreover, some Muslim leaders have stated that the Muslims in Maluku did not want the Maluku ad-

ministrator to expel Laskar Jihad as their withdrawal could leave them vulnerable to revenge attack by Christians. The above skepticism is just being confirmed when the latest incidence broke out leaving twelve people killed and dozen others injured. The latest violence was shocking, showing how fragile the peace deal is. It was the worst violence since warring Christian and Muslim groups signed a peace agreement. As reported, the violence began as a gang of masked people stormed the Soya Village, about five kilometers of Ambon. It is not easy to point out who did the raid. Some people believe that elements of the army were behind the attack, as the attackers wore army uniform and were equipped with military weapons. Others blamed Laskar Jihad and the South Maluku Republic (RMS) separatist for the incidence. But chief of the information department of the Pattimura Military Command overseeing Maluku and North Maluku provinces Maj. Herry Suhardy and Laskar Jihad rejected the accusation. On efforts to deal with the attackers, Suhardy said the military command had now deployed troops to sweep the area. The government stated that it is going to apply martial law if the situation in Maluku deteriorated. In early May, the government had taken a firm stance, perhaps for the first time, with a decision to bring out by force the Laskar Jihad from the area. To prove that government was serious in dealing with the problem, Police arrested Jafar Umar Thalib when he was accused of provoking people to reject Malino II accord.

Looking at the all incidence taking place in Ambon during the last three month, it seem that the Malino II accord signed last February is very fragile. Signing the accord would not solve the problem unless it is accompanied by a proper step to make the accord fully implemented. Eleven points in the accord respectively need to be assessed and addressed carefully. With the full support of the whole community who are already exhausted by the conflict, there is much room to make the accord into law. Lack of law enforcement is another factor that needs to be restored. People are blaming the government and local security as they did not have strong commitment and take a stern action against those who have violated the peace agreement. As reported in the *Jakarta Post* (30 April 2002), until now not even a single person has been prosecuted for the violence that killed some 600 people and displaced other 700.000 people since 1999. Discriminating treatment by the authority and local security to the two opposing parties in Maluku (Muslim vs Christian) was also identified as the main obstacle to build peace in Maluku. Unless the above mentioned obstacles are settled, reconciliation will remain far-fetched.

In Poso (South Sulawesi) -an area that is also hit by the ethnic conflict- the situation was relatively more quiet than in Ambon. Since the Malino I was signed last December, the situation has been back to normal. The disarmament operation is still going on so as to assure a permanent peace. However, although the peace was still fragile as punctuated by

a number of bomb blasts, the overall situation remains stable, and reconciliation appears to be advancing.

PAPUA AND GAM

The presidential commission investigating the murder of Papuan leader Theys Hiyo Eluay concluded its efforts, and prepared to report its confidential findings to Megawati. The military has been conducting its own internal probe, and senior officers admitted publicly that military personnel may have been involved in the killing and could face martial courts. This confirms widespread speculation that elements of the special forces participated in the crime. Meanwhile, speculation persisted over the whereabouts of Theys' driver, who was with him on the night of the murder and has been missing ever since. There are suggestions he may have crossed the border into Papua New Guinea and sought protection for himself at a foreign embassy. He might have evidence that would support a case against high-ranking military officers. However, it is unlikely that such developments would reduce the drive towards independence in the province. On the contrary, it might fuel further anti-Indonesian feeling.

Meanwhile, the security situation in Aceh remains unchanged. Armed clashes between the rebels (GAM) and security forces continued, with casualties in both camps tended to increase. Despite the agreement between the government and GAM in February to hold another round of negotiation in late March, the latter

did not materialize. The government continued to stress that it would crack down the rebels through the use of force. Result of the latest peace talk conducted in Geneva in May has not been publicized. But Indonesia through Foreign Minister Hasan Wirayudha emphasized several times if GAM persists in its demand to separate from Indonesia and has its own independent, Indonesia will not continue the meeting at any time. Any arrangement between Indonesian Government and GAM should be made under the context of Indonesian unitary State.

THE CHALLENGE AHEAD

To create a better and conducive social and political situation, the elites and the government need to reconsider their attitudes. They should not orientate themselves on their own interests - being busy consolidating their position to win the next general election. Equally, they should not ignore people expectation to have a more significant and fundamental development aimed at restoring the current economic, political and social crisis. In this regard, all Indonesian people as well as foreigners are watching out the trials of prominent Indonesians in order to see the long-expected establishment and enforcement of rule of law. To be credible, the government should therefore be able to ensure that all of these trials will bear significant legal fruits rather than to go nowhere.

The coming MPR annual session will be very crucial as it will assess all deliberated articles and discuss the work

result of PAH I members who are assigned to amend the constitution. If it is not changed, the outcome of the constitutional reform has potential problem even if the MPR have deliberated all the articles in the coming MPR's annual session next August. There is a public concern that the fourth amendment will face constitutional and political problem as some articles in the constitution are

conflicting each other. On the government side, to regain broad-based support, Megawati Government should not only have a clearer direction on her reform agenda, but also take firm and stern actions to give fundamental change which are needed to revive the overall situation. Law enforcement, public order, political stability and sound economic policy should become her priority.



FROM THE TRENCHES

The First Year of Indonesia's Crisis of 1997/98 as Seen from the World Bank's Office in Jakarta

Written by Lloyd R. Kenward

Published by: Centre for Strategic and International Studies (CSIS), Jakarta

This book provides an analysis of the first year of Indonesia's crisis taking place in 1997-1998. It is written from the perspective of someone who had the opportunity to observe the development and the impact of the crisis from a strategic position: as an economist sitting in the World Bank country office in Jakarta. The book is therefore

an important contribution to the growing literature on the Indonesian economic crisis for two reasons. *First*, it provides the general audience with a readable account on the evolution of the crisis. *Second*, it also presents a detailed economic analysis for the specialized reader coming from the academic or policy making community.

The book consists of three chapters. Chapter I presents a concise account of Indonesia's economic performance prior to the crisis. Chapter II provides a very detailed chronological review of the first year of the crisis. The main lessons and conclusions that emanate from the analysis are highlighted in Chapter III.

The book serves as a good example of a comprehensive political economy approach, as it manages to put economic analysis into a proper political context. Therefore, this publication is recommended for those who are interested in Asian economic crisis in general and Indonesian economic policies in particular.

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Islam and the Challenge of Managing Globalization

Ahmad Syafii Maarif

INTRODUCTION

WHEN the Berlin Wall collapsed in 1989, the dramatic event was celebrated as the beginning of a new world order. It was expected that the world, after being freed from ideological conflict between two superpowers, would be a better and a more peaceful place to live. Such confidence in a better and more peaceful world, however, soon proved to be short-lived. When the world began to witness the intensification of other types of conflicts, previously swept under the rug of superpower rivalry during the Cold War era, a new pessimism began to creep in. The world began to see the fierce of murders in countries plagued with ethnic and religious conflicts, the growing trend of ethno-nationalism, and the increase of incidents of transnational crimes, as "new" types of threats to world order. The post-Cold War's confidence in a better world was shaken further when Professor Samuel Huntington declared that the coming conflict will be fought along civilization's

fault lines: between Islam and the West and between Confucianism and the West. Huntington's imagination reminds us of Thomas Hobbes' world of "war of all against all."

Even though Huntington's "clash of civilizations" thesis soon became a subject of intense debates among academia, politicians, religious leaders, NGOs alike, many disagreed and even refuted his simplistic view of the world. When the thesis was almost forgotten, however, the horrific terrorist attacks in the US on September 11 have somewhat changed the balance. It should be acknowledged that many have now come to see what might now be termed as Huntingtonian New World Order as a possible scenario. The September 11 tragedy, either by design or by default, has put Islam in a greater focus than ever. Islam inevitably becomes a new centre of attention, both in positive and negative terms. When some of us begin to see the September 11 as the evidence for "the clash of civilizations" between Islam and the West, the

future of humankind, and indeed civilization itself, is now at the most critical juncture of history.

There emerge some questions to be addressed to the US in particular, and the Western world in general: Why and how did it happen?¹ Does it have something to do with Islam?² Why do they hate America?³ What went wrong?⁴ These are, in fact, a series of complex questions with no simple answers. Unfortunately, some of us are keen to resort to a simple answer: Islam, globalization, and the combination of the two. Islam has become a suspect in this regard. Then, when the attack on the WTC came to be seen as a symbolic attack against the very essence of American power - global wealth, global outreach and global power - the other culprit has been the uneven effects of globalization. And, unfortunately, Islam and globalization have come to be seen by some as a combination that poses a serious threat to the West, and even worse, to human civilization. In that context, intensification of dialogue and greater contacts in order to foster deeper mutual

understanding between the two civilizations becomes imperative.

As Islam in Southeast Asia is part of the global Islamic ummah, despite its differences with that of the Middle East in terms of culture and practice, it has also been exposed to these questions. Due to the globalization, the "clash of civilizations" thesis and its reinvigoration after the September 11 attacks, and the subsequent US-led global war against terrorism, have inevitably put Southeast Asia's Islam on the spotlight. Here, the questions become more specific: As the presence of Islam in Southeast Asia is also large, and Muslim countries in this region are also experiencing the uneven process of globalization, would it not pose a threat to the US and to the Western civilization too? Will Southeast Asia's Islam become a hotbed for terrorist organizations? Could Southeast Asia's tolerant brand of Islam give way to militant fundamentalism following September 11?⁵

This article examines four main questions. *First*, how has globalization affected Muslims in Southeast Asia, what were the challenges and their consequences, and what went wrong? *Second*, how do we understand the growth of radicalism in Indonesia? *Finally*, how should the path towards a better future for both Islam and the West in an era of globalization be crafted?

¹See, for example, James F. Hoge, Jr. and Gideon Rose, eds., *How Did This Happen?: Terrorism and the New War* (New York: Council on Foreign Relations, 2001).

²Strobe Talbot and Nayan Chanda, "Introduction," in Strobe Talbott and Nayan Chanda, eds., *The Age of Terror: America and the World After September 11* (New York: Basic Books, 2001), xi.

³Fareed Zakaria, "Why They Hate America," *Newsweek*, 15 October 2001

⁴Bernard Lewis, *What Went Wrong?: Western Impact and Middle Eastern Response* (New York: Oxford University Press, 2002).

⁵Lyall Breckon, "Solid in Support of the U.S.... So Far," *Comparative Connections*, 3rd Quarter 2001 (July-September 2001).

CHALLENGES OF GLOBALIZATION: THE PREDICAMENT OF SOUTHEAST ASIAN MUSLIMS

Globalization, in economic sense, has been characterized as "the widening and deepening of international flows of trade, finance and information in a single, integrated global market."⁶ It has both positive and negative sides, and also its winners and losers. On the positive sides, it has been argued that the average economic growth rates in countries that take part in the process of globalization, especially by opening up their economies, had increased from 2.9% in the 1970s to 3.5% in the 1980s and 5% in the 1990s. Meanwhile, the countries that are not partaking in the globalization saw a decline in their economic growth from 3.3% per year in 1970s to 0.8% in the 1980s, recovering to only 1.4% in 1990s.⁷ It has also presented developing nations with new economic opportunities, primarily through the inflow of foreign direct investment which often, but not always, opens wider access towards technology, science, and knowledge. During the height of economic growth in Indonesia, for example, we were told by former President Soeharto that globalization "provides a greater opportunity for improving national development in order to achieve national prosperity."⁸

The central issue here, however, is not the positive side of globalization. The problem lies in the negative side of it, and it is towards the dark side of globalization that individuals, communities, and nations in postcolonial world, including the Muslim world, have expressed their discontents.⁹ At the global level alone, globalization has been blamed for the widening of the poverty and income gap. Globalization has also been singled out as the reason for the growing disparity between the rich and poor from 30:1 in 1960 to 60:1 in 1990, and 74:1 in 1997. While a few hundreds people enjoy the status as billionaires, more than 1.2 billion individuals around the world still earn less than US\$1 a day, with 0.5 billion others live in extreme poverty. When the developed world, which only has 22% of world's population, consumes 70% of total world resources, the contrast between the winners and losers in the globalization game could not have been more striking.

GLOBALIZATION AND THE PLIGHT OF THE DEPRIVED MUSLIMS

Throughout Southeast Asia, like in many other parts of the developing world, globalization is also embraced and seen by regional countries with a degree of suspicion. As the impacts of globalization on society and nations across the world

⁶UNDP, *Human Development Report 1997* (Oxford: Oxford University Press for UNDP, 1997), 82.

⁷Paul Blustein, "Cause, Effect and the Wealth of Nations," *The Washington Post*, 4 November 2001.

⁸*Suara Karya*, 12 March 1997.

⁹Over the last few years, the general discontents against globalization has been increasingly expressed - also in some parts of the developed world. Anti-globalization protests have always marred economic gatherings of leaders of the developed worlds; and also in the WTO meetings.

have been uneven, either in negative or positive terms, it is inevitable that some groups, societies or nations have felt that they are being marginalized and deprived by the process. For these groups or nations, the suspicions of globalization are far greater than within those groups, societies or nations that benefit the most from it. In such circumstances, it is important to note that the grievances over the negative process of globalization are often shared across culture and nations. A view from Bhutan, for example, has noted globalization as a conspiracy by developed countries to establish and maintain a *status quo* global order in which they can consolidate their privileged status and vested interests.¹⁰

Within the Muslim community in Southeast Asia, such grievances against globalization are also often heard. There is a widespread belief in some quarters that globalization is a form of global conspiracy of the West aimed at undermining Islam and the Muslim community. It is seen as an instrument of the West to erode the *aqidah Islamiyah* -the basic and fundamental doctrinal beliefs- that forms the core of Islamic faith. It is seen as a challenge to *syariah*; a concerted effort of the West to secularize Islam, pushing it to the realm of the private and the spiritual, and removed from the earthy world. The globalization process is

also often regarded as nothing but a process to undermine Islamic moral principles (*akhlaq*). The end goal of this process, some of us believe, is none but to re-colonize Islam and turns it into an appendix of the Western civilization.

Such feeling and suspicion have not developed in a vacuum. Nor does it emerge out of an inherent and embedded belief in the incompatibility between Islam and the West. It emerges out of a specific social, political, economic, and historical context primarily within domestic political order, and also within the global order. In Southeast Asia, for example, more than 70 millions Muslims continue to live in extreme poverty, with no adequate access to proper education, decent jobs, and health services. For them the reality is an unpleasant one. Despite all government's talks about people's economy, free trade, economic liberalization, and the importance of small-scale enterprises, the process of development continues to benefit the few. Corruption has become norms rather than an exception. When they look up to the justice system, they often find that justice is not for them, but for those in upper places within the society.

At the other end of the reality, they are presented with a new way of life on daily basis, performed unashamedly by "the new rich," the benefactors of globalization. While few hundreds parents send their children abroad for better education, tens of millions others are still struggling to buy even a simple book for their children. When some of these "New Rich" insist to send their children to best

¹⁰Lyonpo Jigmi Thinley, "Globalization: A View From Bhutan," *Newsletter*, Regional Centre for Strategic Studies, Colombo 8, no. 1 (January 2002).

hospitals around the world even when they catch a simple flu, millions of other parents can only pray and watch their children lying on the simple wooden beds helplessly, fighting to recover from all kinds of serious diseases due to sustained malnutrition. Millions of Muslims cannot understand why hedonism and consumerism, with all its consequences for morality and ethics, are allowed to flourish unabated by the state.

In that context, globalization has come to be seen as a direct challenge, if not an assault, not only to the identity and way of life of a community, but also to the very existence of that community itself. The forces of change, which sweep before their eyes and infiltrate their private and public lives, have not always been easy to be understood and comprehended, let alone controlled. When the imperative of change becomes a dominant and intimidating narrative, presents itself as an inevitable phenomena, and leaves no alternative but to be on board or left behind, the capacity of some people to make an informed choice is significantly reduced in the absence of a level playing field between the privileged and the deprived in the society. When the pressure grows stronger in the absence of globalization's real progress for the deprived, they soon feel confused, alienated, and forced into a "precarious retreat."

In such circumstances, a chain of self-transformation, that forces an individual to question his/her rights and place within the society, is in order. *First*, when the deprived see that the state and the govern-

ment have not come to their defense, they feel abandoned. *Second*, when they see the problem becomes a waiting game without a clear end, they get frustrated and plunge into despair. *Third*, when they see the state becomes an accomplice in maintaining the uneven progress between the privileged and the deprived, they get angry. Confusion, frustration, despair, and anger would soon find its expression in many forms, some through violent means, initially aimed at what they see as injustice, moral decadence, and religious bankruptcy within a domestic order. When this process takes place on a collective basis, then what you have is a breeding ground for growing radicalism in the society. In such society, religion -indeed, any religion- is often seen as a refuge, as a source for an alternative mode of defense mechanism against the effects of modernity and the janus face of globalization. Here, the state often comes in as catalyst that forces the deprived to resort to violent acts through regime's policy of repressing political dissent and denying political participation.

WHAT WENT WRONG?

Here, it is almost a cliché to say that the sources of problems faced by any society are in fact both exogenous and indigenous. However, one of the greatest problems faced by some within the Muslim community in Southeast Asia, and indeed the world over, is the tendency and the habit of finding the blame somewhere else, outside itself, for all of its problems. Instead of asking themselves

what went wrong within within the community, they tend to look to somewhere else, often looking at the post-colonial global structure as the only reason behind the plight of Muslim countries. True, the unjust international order also contributes to the problem. What they often missed, however, is the fact that the widespread injustice within their society, which serves to create a sense of despair and frustration, is largely caused by the absence of good governance and widespread corruption, exacerbated by the the absence of democratic political institutions to check abuses of power by the rulers.

The second problem is the preoccupation of some elements in the Muslim world with ahistorical exercise that rejects all aspects of the so-called "modernity project"-including democracy, human rights, state based on rule of law, and nation-state- on the basis of a strong belief that Islam is composed of a unique and comprehensive social-political system.¹¹ The argument that Islam is not compatible with democracy would certainly sustain the irony of injustice, corruption, oppression, despotism, and authoritarianism so pervasive in many parts of the Muslim world. In the hands of the advocates of incompatibility between Islam and democracy, Islam has become an excuse to preserve despotism in the name of religion.¹² Islam, if one looks at both the

Qur'an and *Hadiths*, is full with references to the principles of democracy and pluralism, and the importance of human rights. Islam strongly emphasises the principles of *nasiha* (advice), *shura* (consultation), *ikhtilaf* (airing and resolving disagreements), *tasamuh* (tolerance) and *hisbah* (public accountability and ombudsmanship) in governing the relationships between the ruler and the ruled; all refer to what we now call democracy. In fact, Islam even teaches that a Muslim should accept an atheist as his/her neighbour.¹³ Unfortunately, some in West also dismiss the possibility for the compatibility between Islam and the idea of freedom. According to *Der Spiegel*, for example, "freedom of thought is, like every other human rights in Islam, unIslamic."¹⁴

The third problem is the obsession with the glorious past. In response to the challenges of globalization, there is a tendency within the Muslim community to engage in excessive exercise of romanticizing the past. The glorious Islamic past (from 8th to 13th centuries) is not seen through a critical lenses, often dismissing the fact that, internally, the Islamic civilization during this period did not demonstrate the presence of political justice, and in fact was often marked by inter-dynastic rivalry that led to the disfunction of the civilization itself. At the present, Islam

¹¹See the author's argument in Ahmad Syafii Maarif, *Membumikan Islam* [Bringing Islam to Earth] (Yogyakarta: Pustaka Pelajar, 1995), 95.

¹²*Ibid.*, 96

¹³The author has stressed this point in the interview, *Tempo*, 11 November 2001.

¹⁴Quoted in Andrea Lueg, "The Perception of Islam in Western Debate," in Jochen Hippler and Andrea Lueg, eds., *The Next Threat: Western Perceptions of Islam* (London Pluto Press, 1995), 22.

still lacks a conscious and coordinated movement aimed at reformulating its understanding of doctrine in a fundamental way. There is a need for the Muslims to engage in an all-encompassing attempt to reformulate its theology, philosophy, sufism, law system, social principles, economy, politics, science and knowledge, and art, with the Qur'an as the most importance and the highest reference. Few realizes that a new Islamic civilization will stay as an utopia if the Muslims have not changed its attitude towards a positive, creative, and dynamic one in coping with the world marked by rapid change.¹⁵

When such problems are matched with the unfortunate place of Islam in the psychological realm of the West, the seeds for misunderstandings and mutual opposition would continue to bloom. Islam is still, and will remain increasingly, so in the aftermath of September 11, primarily framed in contested terms such as militant Islam, fundamentalist Islam, Islamic bombs, Islamic fanatics, or Islamic terrorism. Here, globalization, despite its promises for an increasingly more open and borderless world, also has its mystery. Despite its central role in spearheading the process of globalization, with unlimited and unrestricted access to information facilitated by the revolution in information technology, Islam strangely remains largely a realm of "the

unknown" to the West. The explosion of IT, and enhanced interaction between Islam and the West, have not yet removed the habit of stereotyping Islam so prevalent in some quarters in the West.

The image of Islam as a violent religion posing an external threat to Western civilization, more so since September 11, can easily be found even in the educated minds among the Westerners. The unfortunate remarks by Italian Prime Minister Berlusconi, who claimed Western civilization far more superior than that of Islam, clearly demonstrate the magnitude of this problem. As a scholar has aptly noted, "...today we are witnessing the creation of a new myth. The impending confrontation between Islam and the West is presented as part of an historical pattern of Muslim belligerency and aggression...."¹⁶ Indeed, the growing feeling of disenfranchisement, resentment, and despair among some Muslims and the continuing reluctance to learning and understanding more about Islam in some quarters in the West have proven to be mutually reinforcing in a negative way. It is like adding the dry grass to the fire.

The resurgence of Islamic movements in many parts of the Muslim world should be understood within this context. Indeed, it has been pointed out that at the basic concerns of past Muslim leaders and thinkers -such as Abu A'la Maududi and

¹⁵For further discussion on this point, see A. Syafii Maarif, *Independensi Muhammadiyah Di Tengah Pergumulan Pemikiran Islam dan Politik* [Muhammadiyah's Independency Amidst The Struggle Between Islamic Thought and Politics] (Jakarta: Cides-Indo, 2000), 61-48.

¹⁶John L. Eposito, "Cash of Civilizations? Contemporary Images of Islam in the West," in Gema Martin Munoz, ed., *Islam, Modernism, and The West* (London: I.B. Taurus, 1999), 96.

Muhammad Iqbal in Pakistan, Muhammad Abduh and Hassan Al-Bana in Egypt, and Ali Shariati in Iran- "were how to solve the pervasive sense of disenfranchisement that engulfed ordinary Muslims as they grappled with the forces of change."¹⁷ In contemporary context, such concerns remain at the core of the struggle for justice in many parts of Muslim world. It is also the concern being shared and experienced by millions of Muslims in Southeast Asia, especially in Indonesia.

THE CASE OF INDONESIA: UNDERSTANDING AND COPING WITH RADICALISM

As mentioned earlier, globalization, for many Indonesian muslims, has its positive and negative sides. The outbreak of the worst economic crisis in decades clearly demonstrates Indonesia's failure in coping with the effects of globalization. Under President Soeharto, it had refused to undertake necessary policy adjustments needed to protect the poor and the disadvantaged within the society. Consequently, when the economy collapsed, more than 45 millions Indonesians were forced to live under the poverty line, not to mention tens of million others lived just on the poverty line. That was a dramatic increase from 11% in 1996 to 20% in 1998. Under such circumstances, the concerns and

resentments against negative aspects of globalization have taken a new turn and manifested in many forms. The process of radicalisation in some quarters within Indonesia's Muslim community has been one of the issues that attract much attention from within and outside the country.

How do we understand the so-call phenomena of "Islamic radicalism" in the country in relations to the effects of globalization? What are the efforts undertaken to remedy the situation? The picture, on balance, is not radically different from other parts of the Muslim world in general, and in Southeast Asia in particular. In fact, Indonesian Muslims constitute the majority of Muslim in Southeast Asia. The uneven process of economic developments, and the inability of the state to cope with negative effects of globalization, has set the context for the radicalisation within the community.

However, it should be noted that greater attention to the religious radicalism in Indonesia began when few hundreds people, under the banner of Islam, took to the streets amid the impending America's plan to attack Afghanistan, a poor country accused of harboring terrorists. Some of these Muslims went to the extent of making noisy threats to sweep Americans in Indonesia and expell them from the country. Such display of radicalism and militancy over the streets of Jakarta and few other major cities in Indonesia, unfortunately, has strengthened the misperceptions of Islam throughout the world. It has even created an unpleasant image of Indonesia's Islam to the outside world.

¹⁷Hussin Mutalib, "Beyond Pride and Prejudice: Western Perceptions of Islam and the Muslims," in Zafar Ishaq Ansari and John L. Eposito, eds., *Muslim and The West: Encounter and Dialogue* (Islamabad: Islamic Research Institute, 2001), 94.

Questions began to be posed to Indonesia whether Islam in the country is experiencing a rapid radicalization. Even worse, there have also been allegations that Indonesia has become a safe haven for international terrorist groups.

No one denies the existence of radical groups in Indonesia. However, it is important not to equate "radicalism" with "terrorism." While the former refers to a set of attitude and ways to express it, the latter clearly embraces criminal acts for political purposes. As a set of attitude, radicalism may or may not turn into terrorism. Dealing with the two requires a different set of actions. Radicalism is an intra-religious problem that should be dealt with by the Muslim community itself. Meanwhile, terrorism is a global phenomenon that requires a global effort to combat it. And, such efforts should not be linked to any religion. Terrorism is simply a despicable criminal act, committed by evil people against humanity.

In the context of growing radicalism in Indonesia, Muhammadiyah (the second largest Muslim organization in Indonesia) has set for itself the task of revealing the real face of Islam and its adherents in Indonesia as the most populous Muslim country in the world.¹⁸ This task becomes a pressing one as there is still deep misunderstanding and misperceptions among those who believe that the radical Muslims represent the entire Muslim com-

munity in Indonesia. In this context, it is important to acknowledge and appreciate the fact that radical and extremist Islam is not the mainstream movement in Indonesia. It is only a small minority group within the entire Muslim population in the country numbering 190 millions adherents.

It is also equally important, however, to understand why radicalism emerged here in Indonesia and elsewhere in the world. In Indonesia, most of those people are energetic and impatient youth who no longer trust the corrupt government system and impotent legal and security apparatus. They are also sick of seeing hypocrisy shown by political leaders. They want instant change and abrupt action to stop any irregularities in society. The attacks by these groups on gambling houses and entertainment centres, for example, clearly reflected a degree of moral concerns in the absence of strict law enforcement by the state. In fact, a common threat among most these groups is that they are reactions to contemporary social and economic problems. They, however, do not equip themselves with intellectual instruments to articulate their ideas in a civil way. They are also not able to explain the motivation behind such radical actions.

In the short term, their actions might appear fruitful but certainly not in the long term. It is therefore very dangerous if one idealizes their actions. Militancy is always dangerous as it always views things through a pair of black and white spectacles. Moreover, such radical and militant actions could harm the image of Islam as a peace-loving religion that preaches

¹⁸The next three paragraphs are drawn from the author's interview with *The Jakarta Post*, 26 January 2002.

tolerance and civil ways of solving problems. Al-Qur'an clearly obliges all Muslims to vibrate to goodness, to enjoin equity and to forbid evil." (QS. 3: 104), but they are also reminded: "Call unto the way of Allah with wisdom and goodly exhortation, and contend with them on the basis of that which is best." (QS. 16: 125). In that context, it is the duty of Muhammadiyah in particular, and Indonesian Muslims in general, to create a more loving and peaceful peace of Islam through their religious and cultural *datwah* (propagations).

PATHWAYS TO THE FUTURE: TOWARDS COOPERATIVE PEACEFUL CO-EXISTENCE

For Muslims all over the world, the issue is not whether Islam should oppose globalization or accept it. The real issue is how to manage globalization so that its positive aspects can be maximized and the negative ones minimized, if not eliminated. This requires a critical thinking and attitude in response to globalization. Yusuf Qarahawi, a leading Muslim scholar, has noted that Islam should take a middle way, namely, taking the positive sides of globalization, and leaving its negative ones.¹⁹ Failure to do this surely invites troubles. In this context, it is of paramount importance for us to understand that the failed development policies of the pro-globalization regimes, endemic corruption, structural poverty, bad governance

and crisis of legitimacy serve as the root-cause for the growth of radicalism among the urban and lower classes.

As challenges confronting both the Islamic community and the West are rapidly becoming more complex due to globalization, then it is imperative for both sides to initiate a joint effort to search for the pathways to the future. A number of points need to be stressed in this regard. *First*, this endeavour requires a strong political will on both sides to see the merits of constructive engagement with each other in order to forge a cooperative peaceful co-existence. That would require a harder work on both sides to establish mutual understanding and mutual respect, as the basis for cooperation, through a reinterpretation of history of relationship between the two. History has been too often used and abused to sustain mutual suspicion and enmity on both sides. This requires the return of history into its rightful place. A leading Muslim scholar, Muhammad Arkoun, has reminded us that "historians particularly must continue to struggle relentlessly to mitigate the ravaging effects of all official historiographies placed at the service of the will for power."²⁰

Second, Islam and the West should begin to work together and step up their efforts to address the down sides of globalization. Both parties should eliminate in-

¹⁹Yusuf Qarahawi, *Islam dan Globalisasi Dunia*, Indonesian trans. (Jakarta: Al-Kautsar, 2001), 141.

²⁰Mohammed Arkoun, "History as an Ideology of Legitimation: A Comparative Approach in Islamic and European Context," in Munoz ed., *Islam, Modernism, and The West*, 37.

justices, poverty, prejudices, practices of discrimination, and all forms of evil acts at national and global levels. For Muslims, the requirement for active participation in correcting such condition has been clearly spelled out by Prophet Muhammad, who said "...when you see an evil act you have to stop it with your hand. If you can't, then at least speak out against it with your tongue. If you can't, then at least you have to hate it with all your heart. And this is the weakest of faith" (Sahih Muslim, Book 1, Number 79). This common endeavour can begin with the awareness of both sides to emphasize similarities rather than differences. Continuous dialogue is one way through which both worlds can invoke similarities, rather than differences, as the basis for a constructive peaceful co-existence.

Of course, there are those, both within the Muslim community and the community of the West, who do not believe in dialogue. In the West, for example, the resistance to dialogue is clearly exemplified in such remarks that claim "the West will continue to conquer peoples, even if it means a confrontation with another civilization, Islam, firmly entrenched where it was 1400 years ago." Within Islam, as Yusuf Qhardhawi has admitted, "there are Muslim extremists who claim that there are no common grounds between us and Christians and Jews."²¹ And, as he has asserted, "this is a wrong understanding of the Islamic

viewpoint."²² Islam strongly believes in the value of dialogue. The Qur'an is full of reference to dialogues, and "even with Satan, God Almighty holds dialogue."²³

Third, a world comprised of different streams of culture and civilizations should not, and need not, be resisted. One world, in the sense of uniformity, would certainly be a very boring place to live. Plurality, and civil ways in managing differences within that plurality, would demonstrate the true meaning of civilization. Indeed, for Muslims, such a world is not without purpose. As revealed in The Qur'an, "O people! We have formed you into nations and tribes so that you may know one another." (QS: 49:13) Difference according to the Qur'an is not only to be tolerated and accepted. It is to be celebrated as the object of creation itself. Again, the Holy Quran also notes "And had your Lord so willed; He could surely have made the whole mankind one single community, but He willed it otherwise, and so they continue to differ save among those on whom God has bestowed his grace and for this He has created them" (QS:11:118). In other words, the celebration of differences in Islam is clearly reflected in the emphasis on the concept of *atta'aruf* or acquaintance.

Four, a better and more fruitful way towards the future lies in the willingness of both Islam and the West to move beyond the current impasse in their

²¹Yusuf Qhardhawi, "Why Muslim and Christian Scholars Come Together," Speech delivered at Islamic Christian Summit, Rome, 3-4 October 2001.

²²Ibid.

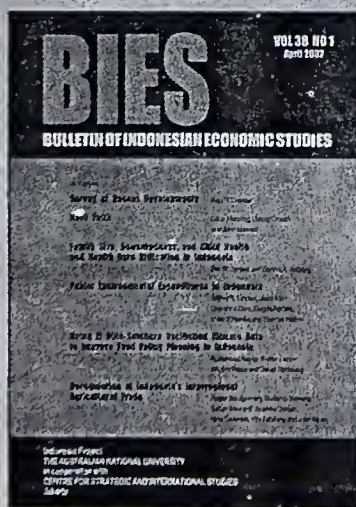
²³Ibid.

understanding of each other. On the one hand, to echo the call by Ismail Ragi A-Faruqi, Islamic activism should be prepared to move beyond opposition to implementation. It is no longer enough to decry what one is against. While it is still important to proclaim what one is for, the time has come to craft specific and concrete plans in order to build a bridge between the Muslim world and the West, between the Muslim world and the rests.²⁴ On the other hand, the West and the rests should move beyond their current preoccupation with the notion of Islam as a "threat" or "terror" and be

prepared to see and understand Islam with all its complexity and plurality. As Edward Said has said, "demonization of the other is not a sufficient basis for any kind of decent politics, certainly not now when the roots of terror in injustice can be addressed, and the terrorists isolated, deterred or put out of business."²⁵ Through this willingness to learn about each other in an honest way, a mutually constructive engagement between Islam and the West should not be too difficult to achieve. The creation of a relationships characterized by cooperative peaceful co-existence between the two great civilizations would not be an utopia.

²⁴A brief description on the thinkings of Ismail Ragi Al-Faruqi can be found in John L. Esposito and John O. Voll, *Makers of Contemporary Islam* (New York: Oxford University Press, 2001), 31.

²⁵Edward Said, "Islam and The West Are Inadequate Banners," *The Guardian*, 16 September 2001.



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People Smuggling as an Increasingly Crucial Factor in Transnational Organized Crime

C.P.F. Luhulima

INTRODUCTION

THE Asia-Pacific Ministerial Meeting on "People Smuggling, Trafficking in Persons, and Related Transnational Crime" held in Bali on 26-28 February 2002 is an acknowledgement of the Asia-Pacific region that people smuggling, human trafficking, and transnational organized crime, cannot be combated by any one country alone. It should be undertaken on a multilateral basis on account of its multidimensionality, involving economic, social and political aspects, such as poverty, economic disparities, labor market opportunities and conflict. The Bali meeting acknowledged that illegal movements of people, particularly of women and children, were growing in scale and complexity in the Asia-Pacific Region.¹

Indonesia and Australia, as organizers of the Bali ministerial meeting, felt the pressure of people smuggling and trafficking and have referred to the existing

ASEAN mechanism in combating people smuggling and trafficking, and related transnational organized crime as a platform for developing co-operation in the wider Asia Pacific region. In addition to the domestic laws on the issue and the respective national circumstances, the conference agreed on developing more effective intelligence sharing arrangements, improving co-operation among law-enforcement agencies, as well as on conducting border and visa arrangements. In the process they commit themselves to strengthen legislation that criminalizes people smuggling and trafficking and the technical capacity to develop more effective legal structures and policy measures to combat the problem.

Additionally, the conference urged the international community to address source countries to deal with the underlying reasons for illegally trafficking people by providing emergency aid, development assistance, direct support programs for displaced persons and the plight of refugees and asylum-seekers. Ad hoc meetings of experts and officials

¹http://www.dfat.gov.au/illegal_immigration/cochair.html

of the participating countries have been set up to develop the crucial mechanisms to combat people smuggling.

The conference, however, decoupled the issue of people smuggling from the issue of terrorism. Terrorism did not emerge in the co-chairman's statement of the Bali conference. There is indeed a significant difference between terrorist and people smuggling in objectives and methods. Terrorism is a political crime, and by definition differs from other crimes in that the beneficiary and the perpetrator are frequently different people. Terrorist groups organize themselves quite differently "in operations and logistics" than organized crime syndicates. However, terrorist groups are increasingly interacting with transnational organized crime syndicates, especially with the narcotics cartels. And since people smuggling currently rivals narcotics in profitability, it is only logical to expect terrorist groups to interact with people smuggling and trafficking cartels as well.

This article attempts to describe the human smuggling issue, a growing trend in transnational organized crime, and the spread in the smuggling routes through Southeast Asia with the objective of reaching Australia. The last section outlines the regional and Indonesian responses towards the issue.

THE PEOPLE SMUGGLING ISSUE

It is acknowledged that smuggling of people is a continuously growing fashion and an issue of global nature, not only

as transnational crime, but also as massive violation of human rights and a fashionable form of slavery. Skeldon indicates that it has become difficult to make a clear distinction between trafficking, smuggling and other forms of population movement, as traffickers have learned to manipulate legal channels of migration in order to gain entry to particular countries at particular times.²

It was only in the early 1990s that the terms "illegal migration" and "people smuggling" have attracted the attention of political scientists, political economists, and criminal and security analysts.³ In its Global Programme Against Trafficking in Human Beings, a research programme undertaken by the United Nations Inter-regional Crime and Justice Research Center Institute (UNICRI) in 1999, the UN defined people smuggling as "the procurement of illegal entry of a person into a State of which that person is not a national with the objective of making a profit."⁴

²Ronald Skeldon, "Trafficking: a perspective from Asia", *International Migration*, 38(3) Special Issue: Perspectives on Trafficking of Migrants

³The United Nations Convention Relating to the Status of Refugees, 1951 and the related Protocol to the Status of Refugees, 1967 delineates the law in relation to refugee matters, not illegal immigrants, John McFarlane, *People Smuggling. A serious Issue in an Unstable Region*. <http://www.afp.gov.au/raw/Publications/Platypus/oct99/people.htm>

⁴Cited in *People Smuggling - The Facts*, Amnesty International Australia, A. Graycar & R. Tailby, "People smuggling: National security implications", Australian Institute of Criminology (August 2000).

Earlier, in 1994, the United Nations General Assembly defined trafficking of people as the "illicit and clandestine movement of persons across national and international borders, largely from developing countries and some countries with economies in transition with the end goal of forcing women and girl children into sexually or economically oppressive and exploitative situations for the profit of recruiters, traffickers, crime syndicates, as well as other illegal activities related to trafficking, such as forced domestic labor, false marriages, clandestine employment and false adoption."⁵

But it was only in 2000 that the Protocol to Prevent, Suppress and Punish Trafficking in Persons, especially Women and Children (The Trafficking Protocol) and the Protocol against Smuggling of Migrants by Land, Sea and Air (The Smuggling Protocol) were promulgated as supplements to the United Nations Convention Against Transnational Organized Crime. In Article 3 of the Smuggling Protocol, people smuggling is defined as 'the procurement, in order to obtain, directly or indirectly, a financial or other material benefit, of the illegal entry of a person into a State Party of which the person is not a national or a permanent resident.'

Meanwhile, "illegal entry" means 'crossing borders without complying with the necessary requirements for legal entry

into the recipient State [Article 3 (a) and (b)]. The emphasis here is thus on the illegal crossing of national borders for profit. People trafficking is a more complex concept than people smuggling. This is defined in the second Protocol to the Convention Against Transnational Crime, Article 3 (a), as 'the recruitment, transportation, transfer, harboring and receipt of persons, by means of the threat or use of force or other forms of coercion, of abduction, of fraud, of deception, of the abuse of power or of a position of vulnerability or of giving or receipt of payments or benefits to achieve the consent of a person having control over another person, for the purpose of exploitation. Exploitation shall include, at a minimum, the exploitation of the prostitution of others or other forms of sexual exploitation, forced labor or services, slavery, servitude or the removal of organs.

The recruitment, transportation, transfer, harboring or receipt of a child for the purpose of exploitation shall be considered "trafficking in persons" even if this does not involve any of the means set forth in sub-paragraph (a) of this article [Article 3 (c)]. Child shall mean any person under eighteen years of age [Article 3 (d)].

The specific mention of developing countries were left out of the United Nations' Convention Against Transnational Organized Crime. Although there is a difference in the terminology of human smuggling and human trafficking, the two terms will be used interchangeably here denoting primarily the issue of people smuggling, as there is a strong connection between illegal migrants, asylum claims

⁵UNICEF in Action-Child protection, Child trafficking, <http://www.unicef.org/programme/cprotection/focus/trafficking/issue.htm>

and organized people smuggling and trafficking in the political rhetoric of recipient states.

Indonesia has signed the United Nations Convention against Transnational Organized Crimes and the two related protocols in Palermo, Italy in December 2000. Illegal immigrants entering the country have created problems for the Indonesian government indeed. There are currently 7,000 illegal immigrants of many different nationalities in Indonesia, accommodated by the immigration authorities. The UNHCR office in Jakarta dealt with a total of 2,111 asylum seekers in 2001. A report of the World Refugee Survey noted that approximately 14 million people sought refuge in 2000.⁶

As has been widely known, criminal networks orchestrate people smuggling and trafficking. They simultaneously operate narcotics trafficking, money laundering, arms smuggling and other transnational crimes in such a way that people smuggling and trafficking currently are competing narcotics in profitability. According to Europol -the EU's cross-border police force- gangs are making as much money from people trafficking as they are from drug smuggling.⁷

Smuggling organizations ranging in size and degree of sophistication are smuggling thousands and thousands of people from poorer to richer countries. The value of the international people smuggling industry is currently estimated to range from US\$7 billion to US\$11 billion a year. One estimate even goes considerably higher, US\$30 billion a year. One in three people who have moved to Western Europe, and one in four to the USA in recent years are estimated to have done so illegally. The German Intelligence Service, BND, has found that income earned through the smuggling of people into the European Union now exceeds US\$4 billion annually, with 400,000 people entering the EU illegally every year.⁸

As stated by Malaysia's Foreign Minister at the Bali Meeting, such criminal networks should be banned. Foreign Minister Syed Hamed Albar also stated that people smuggling and trafficking should be outlawed. In his view, "We have to criminalize smuggling and trafficking of persons and related offences, such as harboring and employing illegal migrants." Malaysia has 500,000 illegal migrants, which has become "a source of heightened concern to Malaysians", apparently criticizing Indonesia for the distress.

⁶From President Megawati's Statement at the Bali Meeting. The figure of 7,000 illegal migrants in Indonesia was provided by Ms Lies Siregar, Director for International Law, Ministry of Justice and Human Rights, Jakarta, in an interview on 23 April 2002.

⁷People Smuggling is on the Rise, Crime Service, ICC Commercial Crime Service, 16 July 2001, <http://www.globalpolicy.org/socecon/global/0716smuggling.htm>

⁸People Smuggling is on the Rise, Crime Service, ICC Commercial Crime Service, 16 July 2001 <http://www.globalpolicy.org/socecon/global/0716smuggling.htm>; "Boat people, illegal migration and asylum seekers: in perspective", by A. Millbank, Social Policy Group, 14 December 1999; CNN.com, People smuggling tops Euro Agendas, 9 February 2001; <http://europe.cnn.com/2001/WORLD/europe/france/02/09/britain.illegals>

At the same time, Malaysia is "to a very insignificant degree" a transit country for illegal migrants. Malaysia's visa-free policy for some Islamic states is used by some asylum seekers as a way of traveling from the Middle East toward Australia. "We have to review our visa or entry control regime."

This was echoed by Indonesian Justice and Immigration Minister, Yusril Ihza Mahendra, who stated: "We are facing an influx of illegal migrants and people-smuggling, yet we do not have adequate legal infrastructure to deal with these issues." He further said that Jakarta plans to amend immigration laws to introduce people smuggling as a crime; and these laws will expectedly be ratified by Parliament in the middle of this year.⁹ Thailand also plans to remove visa-on-arrival status from many of the 150 countries that now enjoy the privilege. Bangkok police have successfully raided two passport-forging operations and two people-trafficking centres in 2001.

What is certain, however, is -despite all the well-intended high-level policy statements- that the trade in and smuggling of humans, particularly through Southeast Asia, almost equals drug-trafficking in lucrativeness, and, with lower risks and penalties, it is heading for the apex of the organized-crime league in the region. Kuala Lumpur is showing signs of becoming an important hub for people

trafficking, but it is Indonesia, which has emerged as one of the most important platforms in recent years. That is because improved surveillance on the Bangkok-Europe route has made Australia an increasingly popular alternative.

Many migrants are willing to undertake the death-defying travel to their destination country with criminal syndicates' services which specialize in human smuggling and trafficking. These syndicates will arrange everything for the migrants at exorbitant prices.¹⁰ People from the Chinese mainland will pay over US\$40,000 to be smuggled into the EU, whereas migrants from Albania will need a mere US\$500 for an illegal speedboat crossing to Italy.¹¹

Not all such individuals, however, pursue refugee claims, and not all illegal migrants get such access by means of people smuggling networks. Nonetheless, there is a strong correlation between illegal migrants, asylum claims and organized people smuggling in the political rhetoric and public policy of the recipient countries.

PEOPLE SMUGGLING AND THEIR TRAFFICKING ROUTES

Economic distress appears to be the main reason for illegal migration move-

⁹Asia Times Online, March 1, 2002; <http://www.atimes.com/se-asia/DC01Ae03.html>; *The Jakarta Post*, 1 March 2002

¹⁰Interpol, People Smuggling, 15 April 2002; <http://www.interpol.int/Public/PeopleSmuggling/default.asp>

¹¹People Smuggling is on the Rise, ICC Commercial Crime Service, 16 July 2001; <http://www.globalpolicy.org/soecon/global/0716smuggling.htm>

ments throughout the world. Nearly all illegal immigrants are economic migrants. As stated by President Megawati at the opening of the Bali ministerial meeting, this reality shows the basic human trait that everyone wants a better future for their descendants.

Gladstone has, however, pointed out that international migration swells up in countries that are emerging from extreme poverty and that are in the process of building its infrastructure and of accumulating savings, but the majority of its population has not yet achieved a stable and comfortable standard of living. Other factors, which can encourage international migration, are political uncertainty and chaos, to escape danger, prosecution, and continuous violence in their country of origin. The loss of central government control enhances the ease with which people sneak past international borders. Adverse economic and social conditions can further accelerate international migration, such as large-scale displacement of labor from secure economic roles in the country of origin, increasing international economic integration that facilitates migration, infrastructure development that lowers travel and communications costs, and other such factors.¹²

The primary target of boat people or asylum seekers or refugees is the Western "recipient" countries. Since legal avenues to these countries have been blocked, the illegal demand for such access has increased considerably. The breakdown of national borders of certain countries, the revolution in communications and information, and the availability of transportation have added to the upsurge. In the *New Statesman*, Nick Cohen severely blamed the European Union governments for arousing human smuggling and trafficking:

"...Human-trafficking is a crime inspired by western politicians, as surely as bootlegging was created by Prohibitionists. European Union governments have made it all but impossible for refugees and economic migrants from the third world legally to breach the walls of their fortress. Desperate people grasp desperate solutions. They turn to criminal smugglers and, by definition, become criminals themselves. They have suffered deaths by poison, suffocation, and hypothermia -and have, indeed, been murdered- as a result. The Dover case may have been a "tragedy", as Jack Straw sobbed. But in his grief he forgot to add that he and his Prime Minister had earlier put the finishing touch to a long and mendacious process of exclusion. They closed the last legitimate escape routes for tens of thousands of people, brought profit to the criminal, and punishment -on occasion, fatal- to the innocent, in the name of the fight against crime."¹³

¹²Jack A. Goldstone, "A Tsunami on the Horizon? The Potential for International Migration from the People's Republic of China" in Paul Smith (Ed), *Human Smuggling: Chinese Migrant Trafficking and the Challenge to America's Immigration Tradition*. Washington: The Center for Strategic and International Studies, 1997.

¹³*New Statesman*, 26 June 2000, <http://www.findarticles.com>

It is as a consequence of the closure of officially authorized avenues, that criminal networks have amplified the operational sophistication of their lucrative businesses.

The bulk of illegal immigrants heading for the EU are mostly either from Eastern Europe or Asia. Migrants from the Asian region are mainly using the route via the southern CIS countries, such as Kazakhstan, Kyrgyzstan, Uzbekistan, Tajikistan and Turkmenistan to Russia and from there via the Ukraine, the Slovak and Czech Republics to Western European countries or even further to the United States and Canada. At the same time, the classical Balkan route from Asian countries via Iran and Turkey and from there via the Balkan states to Western Europe is used for the smuggling of migrants as well as for the smuggling of all other kind of illegal goods like drugs, fire arms etc. Especially during the summer months Spain has to manage the arrival of thousands of illegal immigrants from the Sub-Saharan region. These immigrants undertake the hazardous trip to travel from Morocco to Southern Spain by using the narrow Strait of Gibraltar. Many people traveling in small, overcrowded boats have already drowned in their frantic attempt to reach Europe.¹⁴

The Eastern Europeans consist of two distinct groups. The first is made up of citizens from the former Soviet republics,

mostly Ukraine. According to some reports, up to 200,000 people in the Kiev region alone are waiting to leave the region. The other groups of immigrants coming from Eastern Europe include Albanians, who almost exclusively travel to southern Italy by boat, and the 'overland nations' - Romanians, Moldavians, and Roma (Gypsies). The number of immigrants from the war-torn countries of former Yugoslavia is almost insignificant - most of those nations have large expatriate communities living as legal residents, or even citizens, of various EU countries, which allow them to support the visa applications of their friends and family. Bosnians and Kosovars who entered the EU as refugees are now returning home as domestic conditions improve. Other eastern European countries (Poland, the Czech Republic, Hungary, Slovenia and Croatia) enjoy liberal visa-free travel to the EU, eliminating the need for illegal entry.¹⁵

Statistics indicate that Turks form the greatest number of illegal immigrants among the Asian groups. The Chinese are, however, catching up fast, followed by Iranians, Pakistanis, Bangladeshis and Iraqis. The situation is complicated by the fact that a large proportion of the illegal immigrants officially declared, as 'Turks' on the basis of their citizenship are actually Kurds whose status is often blurred between illegal immigrants, and economic and political refugees. The main obstacle in examining illegitimate im-

¹⁴Interpol, People Smuggling, 15 April 2002; <http://www.interpol.int/Public/PeopleSmuggling/default.asp>

¹⁵Interpol, People Smuggling, 15 April 2002

migration is that their exact number is unknown. It can only be estimated from the number of migrants who fail to reach their final destination. The EU admits that it is in need of manpower to fill a range of jobs - mostly unskilled. The EU, which is getting more affluent, will be unable to provide the necessary manpower to maintain the levels achieved. Official estimates indicate that up to 35 million 'extracommunitarians' will have to be admitted into the EU by 2025. However, there is apparently a high degree of official hypocrisy as well - most illegal immigrants immediately get work, even if their immigration and labor status remains unresolved. Even those countries where anti-immigrant rhetoric is strong officially admit that they need them.

South Africa is becoming more and more a transit country, but also a destination country for most Asian migrants, particularly Chinese nationals. This migration seems to be strongly connected to South East Asian smuggling networks. A large number of Chinese citizens are traveling to the country with fake documents or making dubious journeys to contact countries like Swaziland, Lesotho or Mozambique. From South Africa the willing migrants often continue their journey to the United States, and also to European countries, by plane. Air smuggling from South Africa has existed for several years; and it appears that the route is being tested again.¹⁶

Although the Asia Pacific region is relatively insulated from the full realities of global people smuggling and trafficking, and while the number of people smuggled in and through the region is trivial compared to the flow into Europe and the US, there is an inclination in policymaking circles, which is not only in Australia, to interpret any arrival of boat people as the precursor of an imminent flood. Nonetheless, the steady increase in their number is an indication of the efficacy and sophistication of the criminal networks. And the fact that boat people pay whatever the people smugglers demand is a reflection of their circumstances rather than that of their financial status. In the majority of cases, boat people use people smugglers because they are desperate, not because they are deceitful.

Most people-trafficking in the region involves Asians and people from the Middle East. Chinese make up the greater part of illegals, but there are growing numbers of migrants from Iraq, Iran and other countries in the Middle East as well as South Asians, particularly Sri Lankans. Many go via Bangkok, which apart from having lax immigration rules, is reportedly a leading centre for the forging of passports and visas. Meanwhile there is an increasing number of people who are illegally migrating to Australia via Kuala Lumpur and Jakarta.

The number of illegal immigrants entering Australia has been impressively on the rise. They mostly land on its Western Coasts and especially on Christmas Island, which is located re-

¹⁶Jane's, 23/09/00. People trafficking: Europe's new problem; http://www.fsa.ulaval.ca/personnel/vernag/EHVF/noir/lecture/people_trafficking_europe.htm

latively close to the Indonesia. Most of those immigrants illegally enter Malaysia - the country from which they are taken to the south before making a short journey by ferry crossing to the Indonesian island of Batam. From there it is not difficult to reach Jakarta and Bali. Indonesia is hosting thousands of illegal migrants in its quarantine center and the number is likely to increase. According to the Indonesian Justice Minister, some of the refugees have been in the quarantine centre for years. In this case, the question is: "For how long should we provide them with shelter?" In dealing with the illegal Afghan immigrants, Indonesia has taken a firm stand. As the Minister stated: "We have refused to become a processing country as required by other countries." There are an estimated 7,000 illegal immigrants, mainly from Iraq and Afghanistan, in Indonesia who are seeking refugee status.¹⁷

Jakarta and Denpasar are reportedly the main entry points for illegal immigrants, who subsequently leave for Australia from Flores, Lombok and Sumbawa and West Timor. Those immigrants -usually groups of men aged between 24 and 35- often land in Australia on the largely barren Ashmore Reef, where they make no endeavour to avoid detection and then simply apply for asylum. Indonesia is now working closely with Australia as the destination country, the United Nations High Commissioner for Refugees (UNHCR) and the International Organization on

Migrants (IOM) in dealing with Afghan and Iraq migrants.

Only a limited number of illegals get asylum. For most, arrival at the destination may mean the real problems are only just beginning. Nevertheless, that is unlikely to put off many from seeking new lives in Australia. And, as long as the demand is high, the smugglers and traffickers will stay in business. They will also keep one step ahead of the law enforcers, constantly switching routes and transit points.¹⁸

Changing methods of the people smuggling networks as a response to legislative and law enforcement activities are necessary for the survival of their networks. Flexibility and an assortment of routes is thus one of the main characteristics of transportation. People smugglers may sometimes use simple and direct routes, at other times more circuitous and hence more complicated. The time between departure and arrival may vary from some days to several months or, in worst cases, even years. Smuggling is conducted either by land, air or sea. The vessels are, however, mostly insufficiently equipped with drinking water and food. Hygiene is the worst factor on board, as practically no toilet facilities exist. The treatment of the migrants by the crew and guards can be extremely violent and sick people might be thrown over board. The main trafficking routes are mostly from south to north and from east to west:

¹⁷*The Jakarta Post*, 1 March 2002.

¹⁸http://www.feer.com/articles/2000/0010_26/p104current.html

- from Latin America to North America, Europe and the Middle East;
- from countries of the former Soviet bloc to the Baltic States and Western Europe;
- from Romania to Italy, and through Turkey and Cyprus to Israel and the Middle East;
- from West Africa to the Middle East;
- from Thailand and the Philippines to Australia, New Zealand and Taiwan;
- from Cambodia, Myanmar, and Viet Nam to Thailand;
- from Nepal and Bangladesh to India; and,
- from India and Pakistan to the Middle East.¹⁹

THE RESPONSES TOWARDS PEOPLE SMUGGLING

At the opening of the Bali Conference, President Megawati Soekarnoputri stated that people smuggling and trafficking tend to develop into the worst crime against humanity, and this can cause tension between countries. In her opinion, such crimes [people smuggling and trafficking in persons] have been organized by transnational criminal organizations. In a veiled manner, she criticized Australia for taking ineffective unilateral actions to fight people trafficking when she referred to "impatient governments, which take unilateral action against asylum

seekers".²⁰ Megawati further stressed that a country cannot intervene in the affairs of the country of origin of the refugees, no matter what the reason is for people seeking refuge.

In his closing statement of the meeting Indonesia's Foreign Minister, Hassan Wirayuda, said that the eradication of people smuggling and human trafficking and related transnational crimes should and can be done only in a comprehensive and co-ordinated manner.²¹ For Singapore's Foreign Minister, Prof. S. Jayakumar, the problem of people smuggling and illegal immigrants should be treated for what it is, a crime, and a transnational criminal issue.²² Australian Foreign Minister, Alexander Downer, stressed in his closing statements that the participating countries had expressed a strong commitment to fight against human trafficking and handle the problem in co-operation with one another.

The Bali Meeting should be considered as the last one in a series of regional initiatives to combat people smuggling and trafficking. ASEAN has addressed the issue of smuggling and trafficking mainly in the context of transnational organized crime. The 1997 ASEAN Declaration on Transnational Crime calls for joint efforts to combat transnational crime, including primarily trafficking in

²⁰http://www.abc.net.au/asiapacific/location/asia/GoAsiaPacificLocationStories_492304.htm

²¹*The Jakarta Post*, 1 March 2002.

²²Singapore Government Press Release, Media Division, Ministry of Information, Communications and the Arts, 28 February 2002.

¹⁹<http://www.unicef.org/programme/cprotection/focus/trafficking/issue.htm>. Malaysia and Indonesia should be included to complete the list. Author's note.

women and children. In June 1999, in Yangon, Myanmar, ASEAN adopted the ASEAN Plan of Action to Combat Transnational Crime to: (1) establish a "cohesive regional strategy to prevent, control and neutralize transnational crime; (2) foster regional cooperation at the investigative, prosecutorial, and judicial level as well as the rehabilitation of perpetrators; (3) enhance co-ordination among ASEAN bodies dealing with transnational crime; (4) strengthen regional capacities and capabilities to deal with sophisticated nature of transnational crime; and (5) develop sub-regional and regional treaties on co-operation in criminal justice, including mutual legal assistance and extradition. Part of the Plan is the establishment of the ASEAN Centre for Combating Transnational Crime (ACTC).

Earlier, in April 1999, the Royal Thai Government, in co-operation with the International Organization for Migration (IOM) organized the International Symposium on Migration: Towards Regional Cooperation on Irregular/Undocumented Migration in Bangkok. The meeting was intended to stimulate regional co-operation on migration issues in Southern, Eastern and Southeast Asia. The meeting adopted the Bangkok Declaration on Irregular Migration as a framework for future regional cooperation in combating irregular migration. Key recommendations of the Bangkok Declaration are:

- The establishment of a regional migration arrangement to provide technical assistance, capacity-building and policy support and to serve as a clearing-house on migration issues;
- The implementation of national and regional measures to combat irregular migration and trafficking, comprising comprehensive research and analysis of causes and consequences of irregular migration, promulgation/improvement of national law and exchange of information;
- The holding of International Migration Policy and Law Courses for Asia and the Pacific in the region.²³

The Bali Conference established ad-hoc groups of experts and officials with New Zealand and Thailand as co-ordinators.²⁴ It is of utmost importance that the ad-hoc expert groups seriously consider the probability of a link between people smuggling and human trafficking and terrorist groups, since boat people or refugees increasingly comprise those who are duplicitous and not necessarily desperate. The probability that terrorists will make use of such a link to attain their objectives is extremely high. The 2001 ASEAN Declaration on Joint Action to Counter Terrorism should become the common platform for establishing such a link. The Heads of Governments at

²³*Combating Trafficking in South-East Asia. A Review of Policy and Programmes Responses.* IOM Migration Research Series, No. 2, 2000, Prepared by Annuska Derks. For the series of regional and subregional initiatives on the issue see this study, pp. 19 ff.

²⁴It was agreed that two ad-hoc experts' groups (one on international and regional cooperation with New Zealand serving as coordinator; the other on policy issues, legal frameworks and law enforcement issues, with the Kingdom of Thailand serving as coordinator) would be established for follow-up purposes. The experts' groups will deliberate for a 12-month period.

their Brunei Darussalam Summit (2001) have pledged to "strengthen co-operation at bilateral, regional and international levels in combating terrorism in a comprehensive manner," and thus "make the fight against terrorism a truly regional and global endeavour." In the process, ASEAN members should enhance intelligence exchange on terrorists and terrorist organizations, their movement, their support infrastructure and funding, and any other information needed to "protect lives, property and the security of all modes of travel."²⁵

Indonesia's initiatives in combating human smuggling at the national level are still being thrashed out. In fact, the country has experienced an increase in the number of immigrants whose entry permits to the destination countries, such as Australia, are denied. Their number increased so exponentially that the UNHCR and the International Organization of Migrants (IOM) felt compelled to pay more attention to the problem in Indonesia. The platform for discussion of the problem is the Protocol against Smuggling of Migrants by Land, Sea and Air. The establishment of co-operation networks to tackle the problem is being made by also taking into account, at the international level, the International Labor Organization (ILO) Convention, the Human Rights Convention, the Refugees Convention, etc. At the national level the platform for the formulation of a law against people smuggling are the Law

on Immigration No. 9/1992, Law on the National Police No. 24/1994, and the Law on the Human Rights Tribunal No. 26/2001.

The national task force on people smuggling proposed that the Law on Immigration be reconsidered taking into account people smuggling which should be strictly differentiated from illegal migrants. People smuggling is a "serious crime" as "it involves an organized criminal group ... that engages in criminal activities in more than one State"²⁶ and has a substantial effect on Indonesia, while illegal migrants are liable to be punished as they violate the country's immigration law. The suggestion is that Article 3 of the Protocol Against the Smuggling of Migrants by Land, Sea and Air be integrated into the amendment of the 1992 Law on Immigration. It is proposed that the Protocol be ratified subject to a number of inputs, which so far have not attained their final shapes. The ratification of the UN Convention on Transnational Organized Crime and its Protocols will purportedly be submitted for ratification by mid-2003.²⁷

At the national level, Indonesia should also attempt to integrate its fight against terrorists' activities into its fight against people smuggling and trafficking.

²⁶Article 3, UN Convention against Transnational Organized Crime.

²⁷The sections on the Indonesian position was written on the basis of interviews conducted with the Director of International Law, Ministry of Justice and Human Rights, Ms Lies Siregar on 23 and 26 April 2002.

²⁵2001 ASEAN Declaration on Joint Action to Counter Terrorism, Bandar Seri Begawan, 5 November 2001.

Energy Demand in Indonesia: Past and Future Trend*

Budy P. Resosudarmo and Tanujaya

INTRODUCTION

AMID the long-standing economic crisis, Indonesian economy starts, albeit slowly, to recover. Since the first quarter of 1999, the Gross Domestic Product (GDP) has been steadily increasing and the industrial sector has also been slowly emerging from its slump. The industrial sector has been growing with the average rate of 1.73% each quarter in the year 2000 (Bank Indonesia 2001). If this trend continues to happen, this will most likely revive the industrial activities, bringing them back to the level before the crisis took place, or even higher than it was. The revival of real sectors will, in turn, give rise to the increase in energy consumption.

The rising economic activities, which are mostly centered in urban areas, will consequently attract rural people to migrate to those areas. Urban people consume more fuel and electricity com-

pared to rural dwellers (Firman and Prabatmodjo 2000). The more people moving from rural areas to urban areas, the more energy consumed. Hence, the recovery of Indonesian economy and the expected steady growth of the economy will no doubt increase the energy demand. In this respect, important questions need to be raised: (1) how fast will the increase in energy demand be in Indonesia or what will the energy demand be in the next twenty years?, and (2) can Indonesia meet this future energy demand and how?

Discussing current and future energy demand in Indonesia, this paper is focused on the challenges and problems in meeting the energy demand. The paper will initially review the historical trend of energy consumption and then compare several forecasts of energy demand conducted by the University of Indonesia, Directorate General for Electricity and Energy Development, and the Natural Resources Management Project, respectively. The discussion will also cover the environmental implications, challenges, and problems in developing the energy sector to meet

*This research was conducted when both authors were working for the Agency for the Assessment and Application of Technology and for the Inter University center-Economics-University of Indonesia.

future demand. Discussion on the current energy policy in Indonesia will also be presented. Lastly, this paper provides suggestions on energy strategy that might be implemented in dealing with the challenges and problems in meeting energy demand.

CURRENT TREND OF ENERGY CONSUMPTION

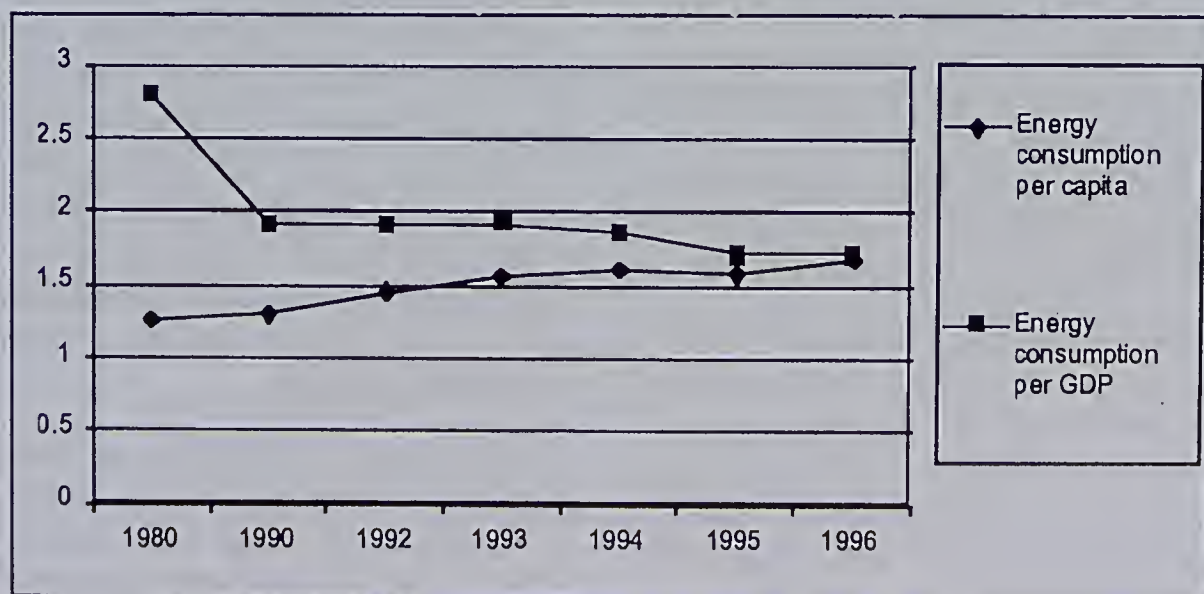
In East Asia, Indonesia is the fifth largest consumer of energy after China, Japan India and South Korea. Indonesia's total consumption of energy increased threefold over the past two decades, from approximately 184 million BOE in 1980 to approximately 595 million BOE in 1998 (EIA 1999b). The increase in energy consumption during the 1980s and 1990s was relatively faster than the increase

in population; however, it is slower than the increase in GDP. Hence, per capita energy consumption increased, but energy consumption per GDP decreased in the last two decades. Figure 1 exhibits that per capita energy consumption increased from approximately 1.25 BOE per capita in 1980 to approximately 1.68 BOE per capita in 1996, while per GDP energy consumption decreased from approximately 2.78 BOE per thousand 1990 USD to approximately 1.7 BOE per thousand 1990 USD (WEC 1999). This fact could indicate that the economy has improved its efficiency in energy use.

Before describing the types of energy consumed or demanded, two definitions of energy consumption/demand need to be clarified. *First*, energy consumed by final demand or final energy consumption/demand belongs to the type of energy

Figure 1

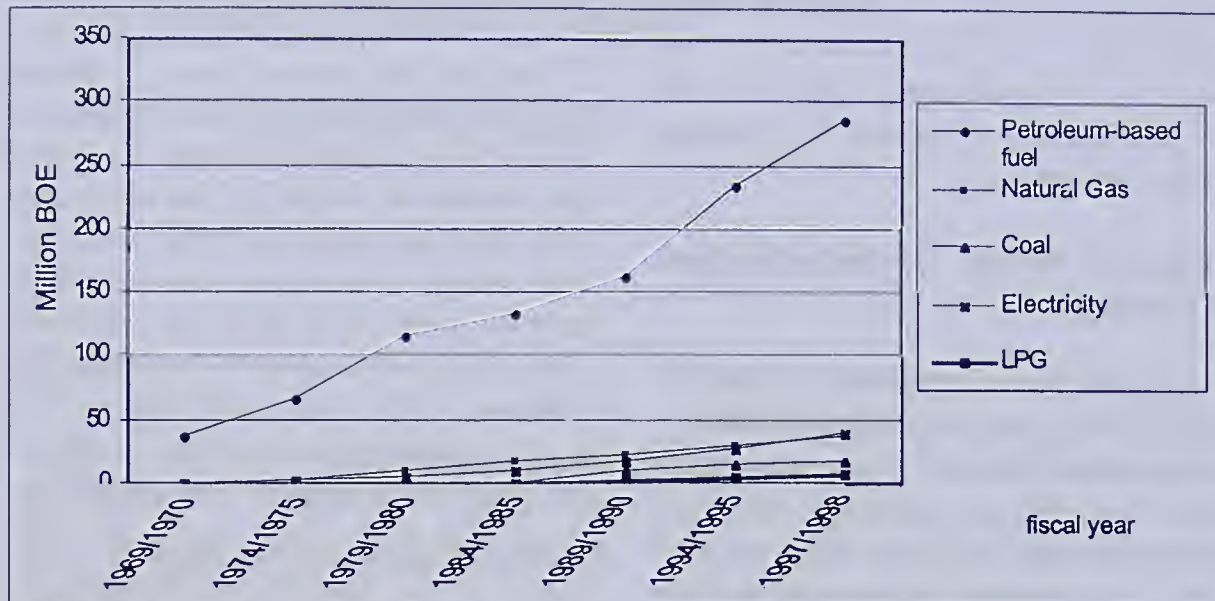
ENERGY CONSUMPTION PER CAPITA AND PER GDP



Source: WEC: *National Energy Data Indonesia* (1999).

Figure 2

TREND OF ENERGY CONSUMPTION BY FINAL DEMAND



Source: Ministry of Mines and Energy, 1999.

consumed directly by final demands, such as petroleum-based fuel, natural gas, coal, and electricity. *Second*, demand/consumption of energy source or primary energy consumption/demand is the type of natural resources that are extracted from the nature to become the sources of energy for human, such as crude oil, natural gas, coal, and renewable resources. It is to be noted that data collected for this paper does not include woods as a source of energy or as primary energy.

Among the energy consumed by final demand, petroleum-based fuel is consumed the most (Figure 2). Indonesian Ministry of Mines and Energy (1999) noted that, in the fiscal year 1997/1998, approximately 74% of total energy consumption is petroleum-based fuel. Electricity is placed second, which is 10% of the total

energy consumption. This is followed by natural gas and coal, which ranked the third and fourth, respectively (Table 1).

Interesting to observe is the consumption of petroleum-based fuel. Figure 3 shows that from the end of 1960s until the end of 1970s, household sector was the largest consumer of petroleum-based fuel. However, since 1984, transportation sector became the largest consumer of petroleum-based fuel. Furthermore, since 1994, petroleum-based fuel consumption of household sector was lower than that of industrial sector.

For electricity, in 1997/1998, the major consumer is household sector (Table 1). Households consumed approximately 53 % of the total electricity produced. Figure 2 shows that, in the last ten years,

Table 1

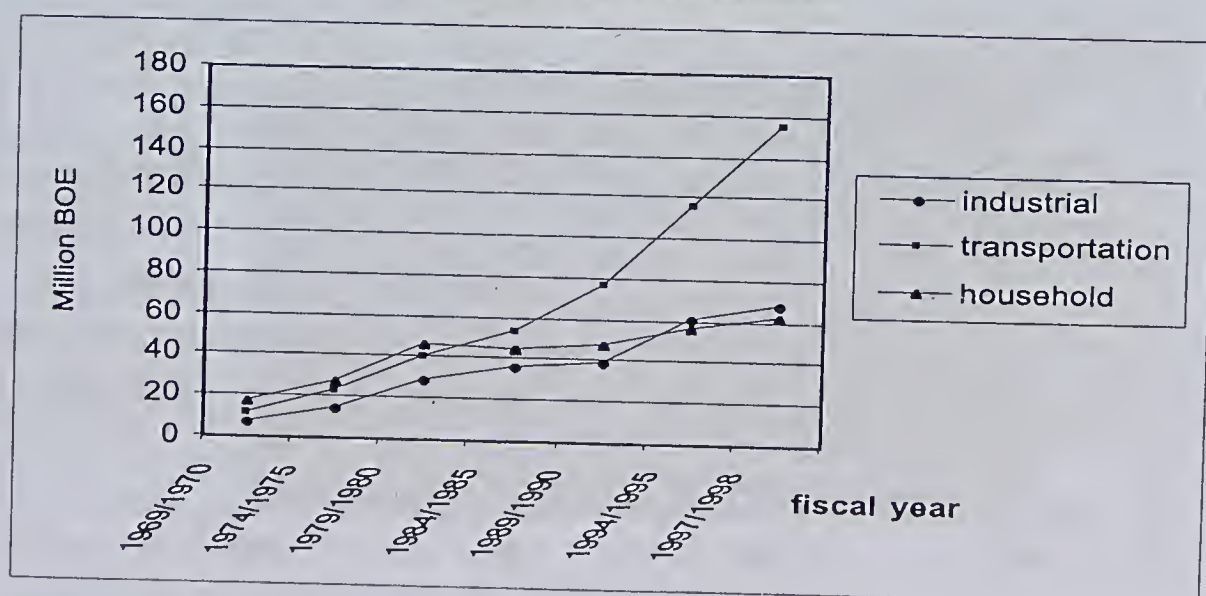
ENERGY CONSUMPTION BY SECTORS IN 1997/1998
(in thousand BOE)

	Industrial		Household		Transportation		Total	
Petroleum-based fuel	67731,8 47,85%	23,66%	62782,9 70,24%	21,93%	155756,1 100%	54,41%	286270,8 74%	100%
Natural gas	36340,1 25,67%	99,39%	62,8 0,07%	0,17%	158,6 0%	0,43%	36561,5 9%	100%
Coal	16749,69 11,83%	100%	0 0%	0%	0 0%	0%	16749,69 4%	100%
LPG	2008,1 1,42%	27,87%	5188,8 6%	72,01%	8,8 0%	0,12%	7205,7 2%	100%
Electricity	18725,46 13,23%	46,72%	21351,57 23,89%	53,28%	0 0%	0%	40077,03 10%	100%
Total	141555,15 100%	36,59%	89386,07 100%	23,11%	155923,50 100%	40,30%	386864,72 100%	100%

Source: Ministry of Mines and Energy, 1999.

Figure 3

**CONSUMPTION OF PETROLEUM-BASED FUEL
BY SECTORS OF FINAL DEMAND**



Source: Ministry of Mines and Energy, 1999.

electricity consumption increased tenfold from approximately 5 million BOE in 1980/1980 to approximately 40 million BOE in 1997/1998. Most of this electricity is generated using petroleum-based fuel electric generation.

The role of renewable energy in generating electricity is still trivial. In 1998, the amount of electricity generated using hydropower was only 0.09% of the total electricity generated, while the sum of electricity generated by geothermal, solar, biomass, wind, and tidal wave was only counted for 0.04% of the total electricity generated (EIA 1999b).

Natural gas is mostly consumed by the industrial sector (approximately 99%), particularly the fertilizer industry (39%) and the national electric company (39%)

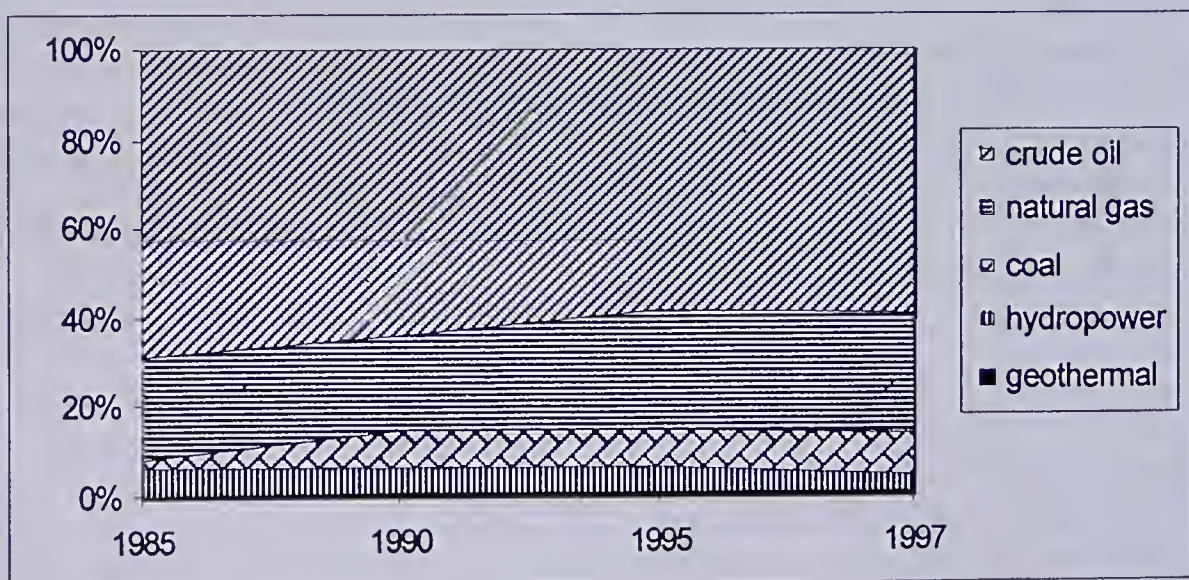
(CES UI, 2000). From 1979/1980 until 1997/1998, the consumption of natural gas increased by more than threefold, from approximately 10 million BOE to approximately 36 million BOE.

From the consumer side, the Ministry of Mines and Energy (1999) claimed that the transportation sector is the largest consumer of energy. In the fiscal year of 1997/1998, transportation sector consumed approximately 40% of the total energy consumption. All of this energy consumption in the transportation sector was petroleum-based fuel consumption (Table 1).

Industrial sector was the second largest consumer of energy, consuming approximately 37% of the total energy consumption in 1997/1998. Approximately

Figure 4

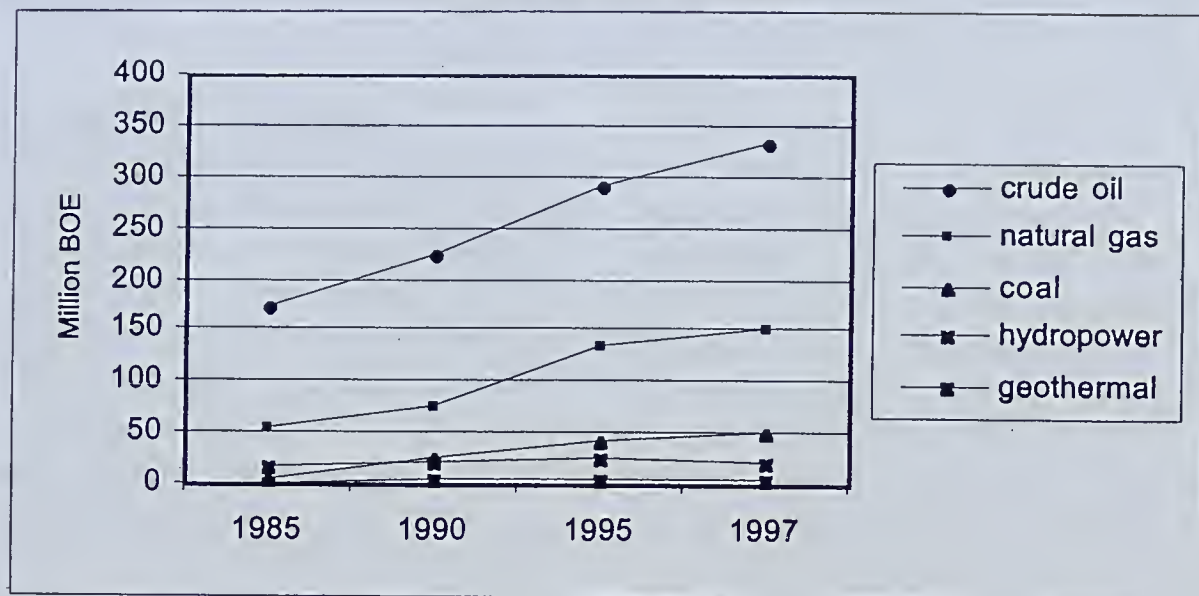
COMPOSITION OF ENERGY SOURCES (PRIMARY ENERGY)



Source: Ministry of Mines and Energy, 1999.

Figure 5

TREND OF ENERGY SOURCES



Source: Ministry of Mines and Energy, 1999.

48% of total energy consumed by the industrial sector was petroleum-based fuel, and approximately 27% was natural gas.

As sources of energy, Indonesia depends mostly on crude oil (Figure 4). However, since 1993, the role of crude oil in providing the energy for Indonesia has been a little bit declining. On the other hand, the roles of coal and natural gas have been slightly increasing since 1993.

Figure 5 presents the trend of energy sources in Indonesia. It can be seen that contributions of hydropower and geothermal have always been small and relatively not increasing. On the other hand, contributions of crude oil and natural gas increased relatively fast.

Comparing fossil fuels and renewable energy resources, one can conclude

that renewable energy has not yet been developed as major energy resources. The contribution of renewable energy resources to national economy development is insignificant at the present time.

VARIOUS FORECASTS OF FUTURE ENERGY DEMAND

This section discusses 3 projections of energy demand conducted respectively by the Centre for Energy Study-University of Indonesia (CES-UI), by the Directorate General for Electricity and Energy Development (DGEED), and by the Natural Resources Management Project (NRMP-USAID).

CES-UI Forecast

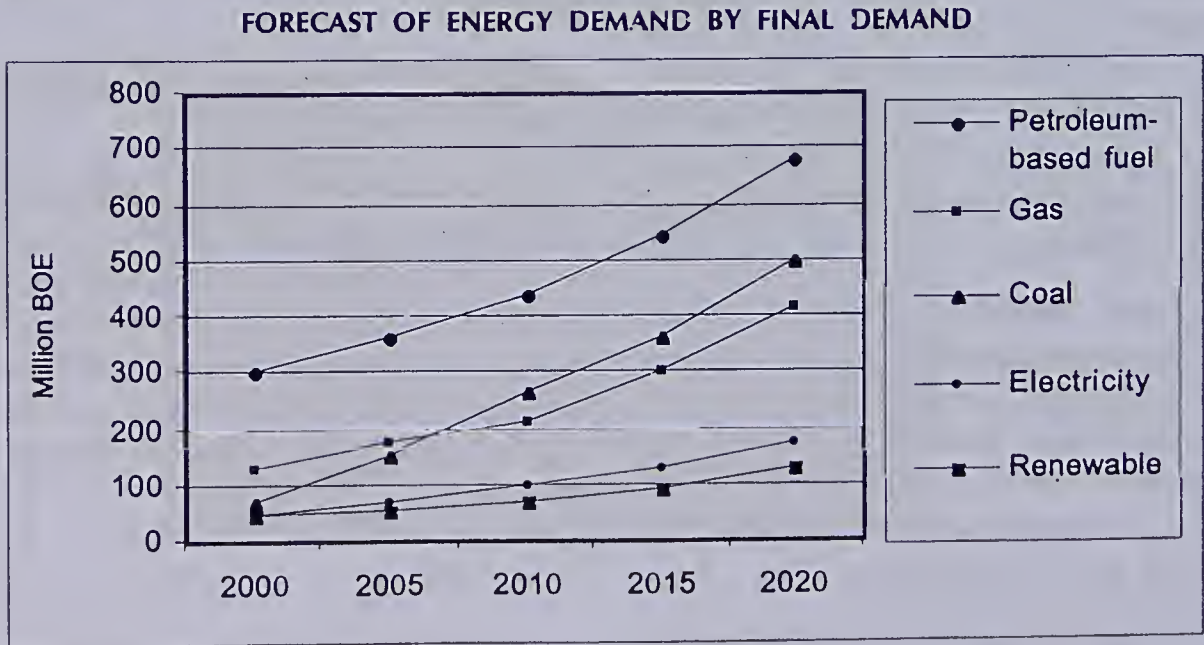
In projecting the energy demand, Center for Energy Study-University of

Indonesia (CES-UI) develops a system dynamics model, which is called the Indonesia Energy Outlook by System Dynamics 2000 (INOSYD 2000). The system dynamics consists of six modules (CES-UI 2000). Those are: (1) Module of Macroeconomics, representing variables of macroeconomics such as gross domestic product (GDP), population, energy prices and income from energy sectors; (2) Module of Energy Demand, simulating how much energy is required by each economic production sectors, taking into account macroeconomics and energy technology variables; (3) Module of Energy Supply, simulating national energy production for various sources of energy, including oil, gas, coal, and renewable energy; (4) Module of Energy Balance, containing energy balance relating to energy production, energy

consumption, energy import and export; (5) Module of Environment, estimating pollutant emissions from the various uses of energy.

CES-UI predicts that petroleum-based fuel will still be the most important energy in the next two decades (Figure 6). Petroleum-based fuel demand is expected to double in the next two decades, from approximately 303 million BOE in 2000 to approximately 680 million BOE in 2020. The transportation sector is predicted to be the main consumer of petroleum-based fuel. Meanwhile, CES-UI also predicts that coal will be the second most important energy in the next 20 years. Important to note is that currently the second most important energy is gas. After 2006 the demand of coal is expected to exceed the demand of gas.

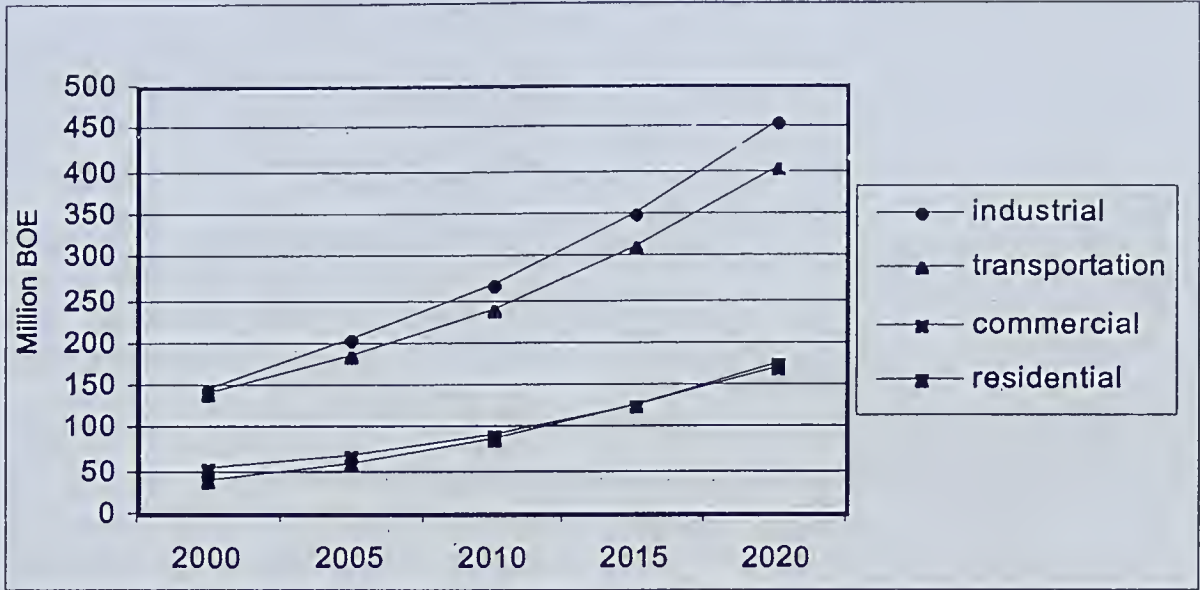
Figure 6



Source: CES-UI, 2000.

Figure 7

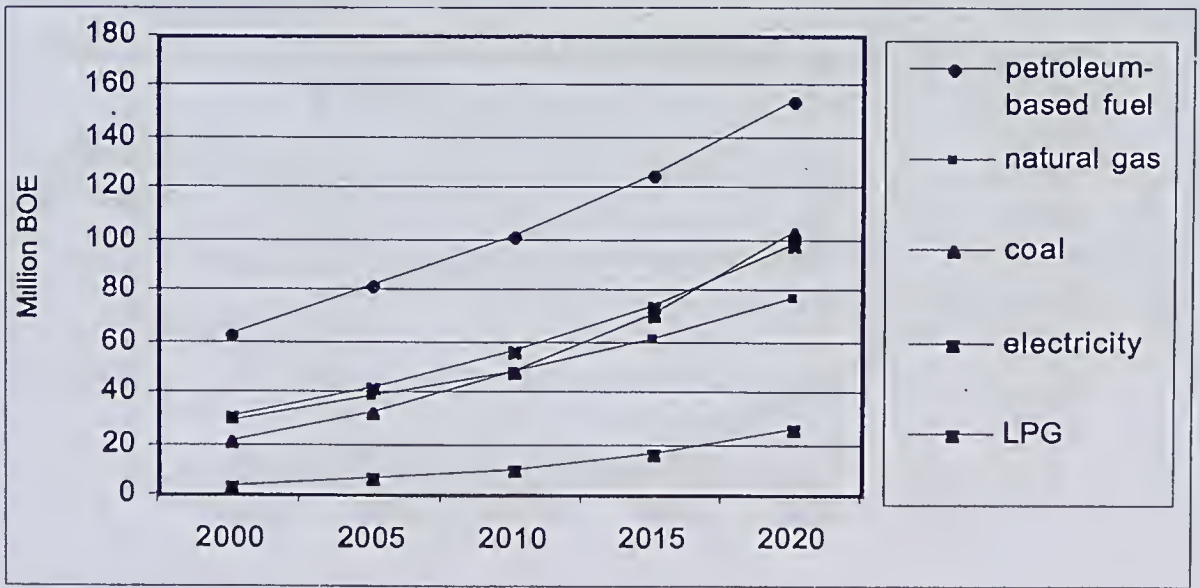
FORECAST OF TOTAL ENERGY DEMAND
BY SECTORS OF FINAL DEMAND



Source: CES-UI, 2000.

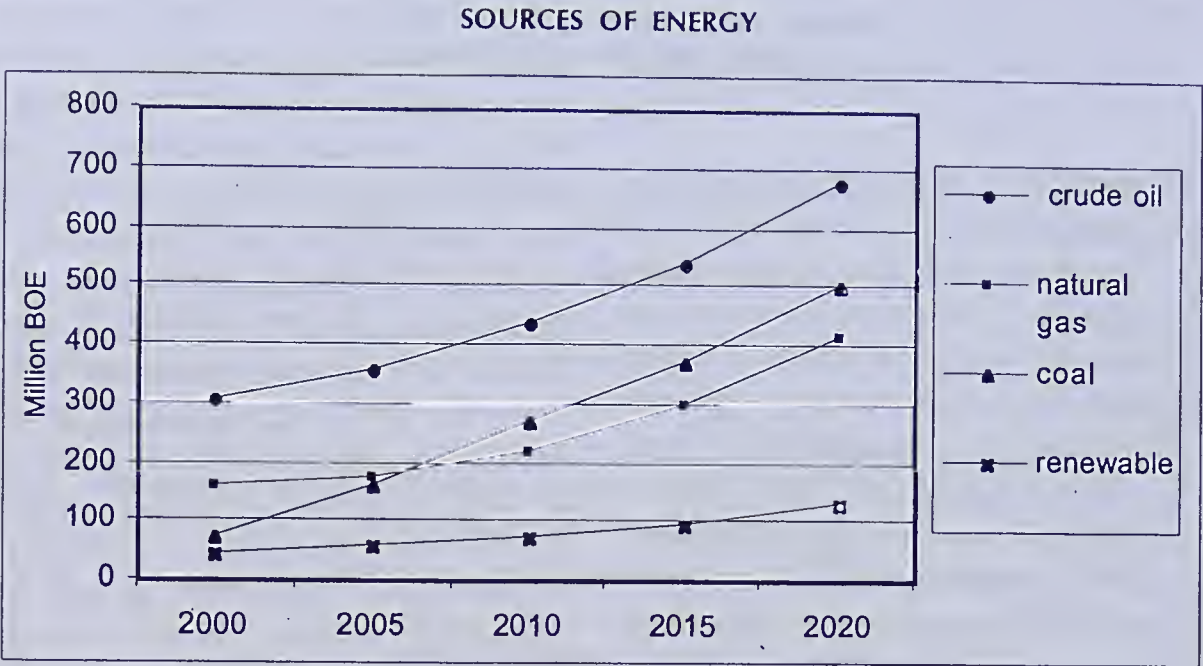
Figure 8

ENERGY DEMAND BY INDUSTRIAL SECTOR



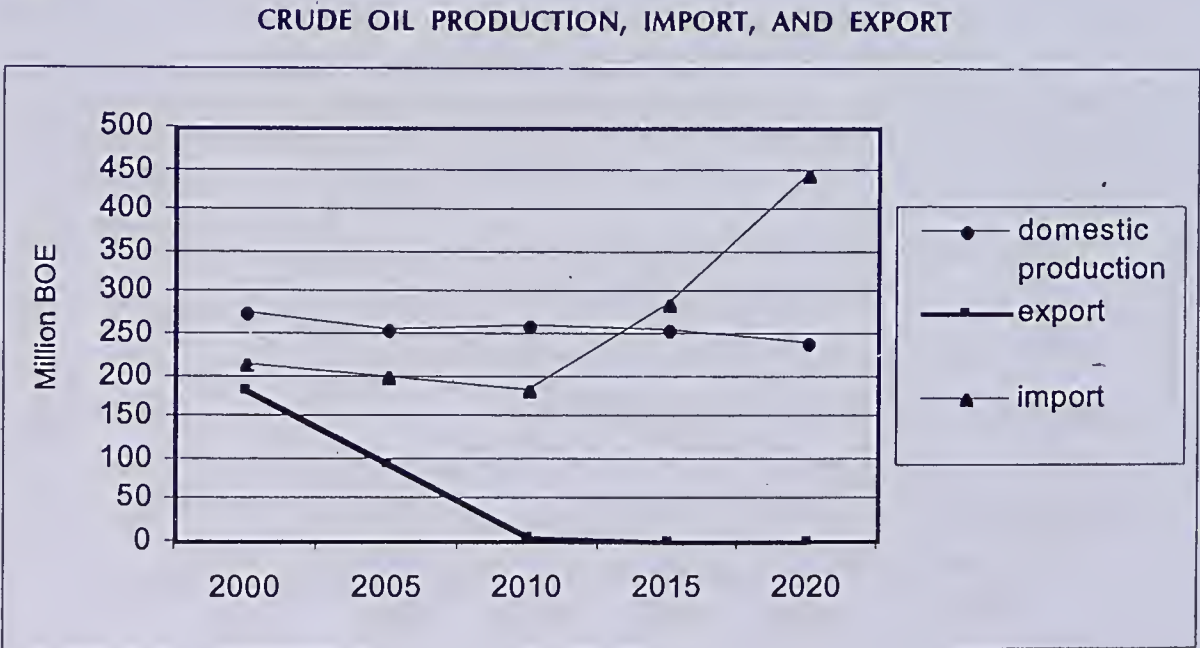
Source: CES-UI, 2000.

Figure 9



Source: CES-UI, 2000.

Figure 10



Source: CES-UI, 2000.

Although petroleum-based fuel will be the most important energy in the next two decades, the share of petroleum-based fuel from the total energy demanded is expected to decline. On the other hand, the share of coal is predicted to increase. The shares of other energies are expected to stay relatively constant.

From the consumer side (final demand), industrial sector is estimated to remain the largest consumer of energy. Energy demand by industrial sector is predicted to increase from approximately 146.753 million of BOE to approximately 456.427 million of BOE (Figure 7). Energy demanded by the industrial sector is and will mostly petroleum-based fuel (see Figure 8).

As for sources of energy, Indonesia is predicted to depend mostly on crude

oil. Total quantity of crude oil demanded increases from approximately 304 million of BOE in 2000 to approximately 680 million of BOE in 2020 (Figure 9). Important to note is that by the year 2020 most of crude oil utilized is imported from abroad (Figure 10).

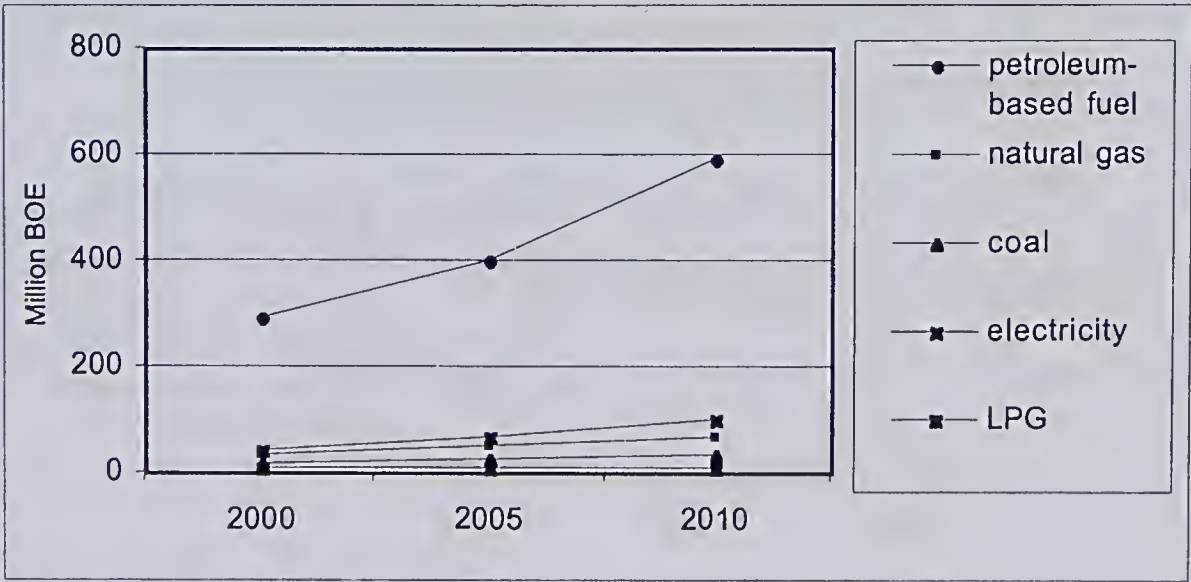
Second most important source of energy is estimated to be coal. The total quantity of coal demanded increase from approximately 73 million BOE in 2000 to approximately 499 million BOE in 2020. Until the year 2020 Indonesia is predicted to be still a net exporting coal country.

DGEED Forecast

Directorate General for Electricity and Energy Development (DGEED) de-

Figure 11

FORECAST OF FINAL ENERGY DEMAND



Source: Directorate General for Electricity and Energy Development.

veloped an energy econometric model of Indonesia. DGEED utilized this econometric model to predict energy demand in Indonesia from 2000 until 2010. DGEED assumed that the annual GDP growth rate in 2000 has been on the rise, and it will increase slowly each year after 2000, and will finally reach 6% in 2010. DGEED predicted that demand on total energy on 2010 will be twofold higher than 2000, from approximately 395.31 million BOE to approximately 800.71 million BOE. This demand is still dominated by petroleum-based fuel. Electricity ranked the second, followed by natural gas and coal in the third and fourth respectively (see Figure 11).

From the consumption side (final demand), transportation sector is predicted

to be the largest consumer of energy. In 2010, transportation sector will consume approximately 40% of total energy consumed that year. The second rank is occupied by industrial sector with 35% share of total energy demanded (see Figure 12).

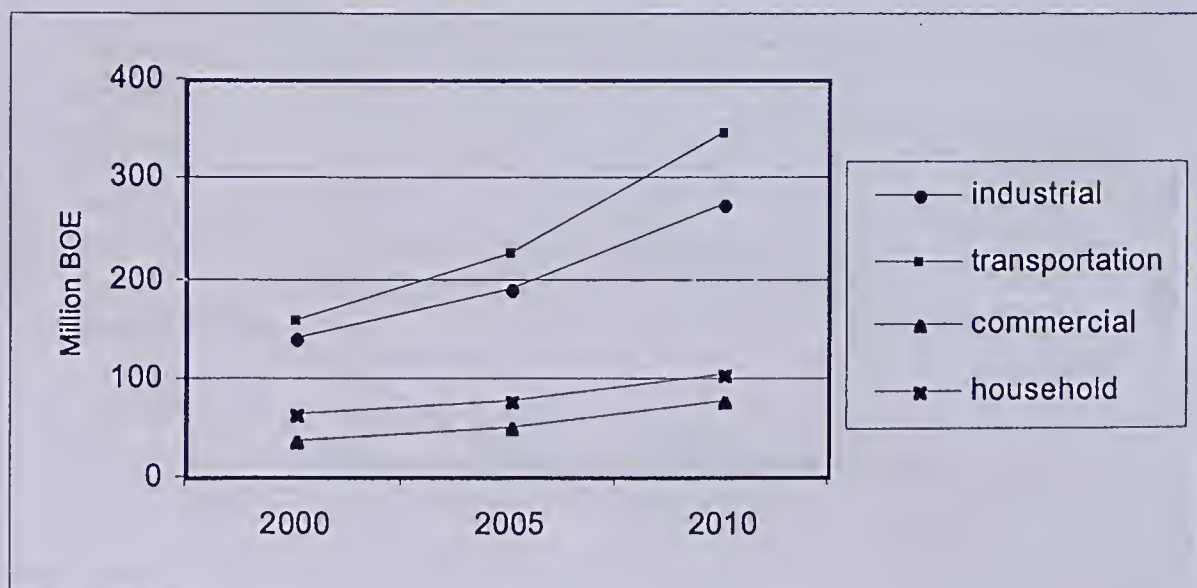
DGEED also made a projected energy balance for 2005 (See Table 2). The Table shows that crude oil will be the major source of energy (see column primary energy supply), although the amount of natural gas extracted will be higher than that of crude oil (see, indigenous production column). Most of natural gas will be exported abroad.

NRMP Forecast

NRMP utilized a dynamic Input-Output model in forecasting energy

Figure 12

FORECAST OF ENERGY DEMAND BY SECTORS OF FINAL DEMAND



Source: Directorate General for Electricity and Energy Development.

Table 2

ENERGY BALANCE FORECAST INDONESIA – 2005
(in million BOE)

(in million BOE)	Crude Oil	Petro Prod.	Coal	Natural gas	Hydro-Geo	Electricity	Total
Indigenous Prod.	571.9684	0	370.5304	669.0052	47.1466	0	1658.795
Exports	-314.6476	-41.0818	-273.0604	-453.7048	0	0	-1082.4946
Imports	154.7968	160.5006	0	0	0	0	315.2974
Primary Energy Supply	412.1176	119.4188	97.47	215.2282	47.1466	0	891.5256
Charcoal Prod.	0	0	0	0	0	0	0
Gas Manufacture	0	17.4724	0	-18.1944	0	0	-4.8374
Petroleum Refining	-412.1176	311.3264	0	0	0	0	-100.719
Power Generation	0	-38.4104	-74.005	-146.4938	-47.1466	72.3444	-233.7836
Trans and Dist Losses	0	0	-0.6498	-2.888	0	-8.0864	-11.6242
Net Supply Available	0	409.8794	22.8152	47.652	0	64.258	544.6046
Residential	0	49.0238	0	0	0	28.7356	77.8316
Commercial	0	39.9988	0	0.0722	0	11.0466	51.1898
Industry	0	95.7372	22.8152	47.291	0	24.3314	190.247
Transportation	0	225.1196	0	0.2888	0	0.00722	225.3362
Total Consumption	0	409.8794	22.8152	47.652	0	64.258	544.6046

Source: Directorate General for Electricity and Energy Development

Note: Petro Prod is abbreviation of petroleum production, consist of gasoline, aviation gas, kerosene/jet fuel, diesel/gas oil, residual/fuel oil, and LPG/bottled gas.

consumption in Indonesia (NRMP 1995). Base year for their dynamic Input-Output model is Indonesian economy in 1985. NRMP's work in forecasting the energy demand is less detailed compared to the work by the CES-UI or by the DGEED. NRMP predicts that, comparing with the level of fossil fuels demand in 1985, the total fossil fuels demand in 2020 is approximately twofold higher. Meanwhile, the total demand of elec-

tricity in 2020 is predicted to be approximately twelve times higher compared to the demand in 1985 (see Table 3).

NRMP provides a bit more detailed information in their forecast of household energy demand (Table 4). They predict that household demand on electricity will increase with growth rates of 11.53% from 2000 to 2010 and 9.97% from 2010 to 2019. As for non-electricity, household

Table 3

FORECAST OF ENERGY DEMAND BY NRMP (in billion rupiah)		
Energy type	1985	2020
Fossil fuels	15,329	36,511
Electricity	1,541	9,737

Source: NRMP, 1995.

demand is predicted to increase by growth rates of 5.34% from 2000 to 2010 and 4.43% from 2010 to 2019.

This section compares forecasts conducted respectively by CES-UI, DGEED, and NRMP, and attempts to see the growth of future energy demand in Indonesia. Table 5 shows the total future energy demand predicted by the three institutions. Note that NRMP did not provide the forecast of total energy demand, only CES-UI and DGEED did. CES-UI and DGEED disagree in estimating the total energy demand in 2000. CES-UI estimated that the energy demand in 2000 is approximately 591 million BOE, DGEED estimated that the demand is approximately 395 million BOE. Table 1 shows that 1997/1998 energy consumption is

Table 5

TOTAL ENERGY DEMAND					
	2000	2005	2010	2015	2020
CES-UI (in million BOE)	591.23	812.41	1078.73	1430.69	1891.53
% age change computed to 2000		37%	82%	142%	220%
DGEED (in million BOE)	395.31	545.14	800.71		
% age change computed to 2000		38%	103%		

Table 4

HOUSEHOLD ENERGY DEMAND				
Type of Energy/Year	1990	2000	2010	2019
Electric				
• in 10 ⁶ BOE	5.64	17.49	52.10	122.53
Non electric				
• in 10 ⁶ BOE	52.53	92.54	155.63	229.93
Growth rates	1990-2000	2000-2010	2010-2019	
Electric	11.98%	11.53%	9.97%	
Non electric	5.83%	5.34%	4.43%	

Source: NRMP, 1995.

approximately 387 million BOE. Hence, the true energy consumption in the year 2000 could be around 395 or 591 million BOE. Important to note, however, that both CES-UI and DGEED agree that energy demand in Indonesia approximately double every 10 years; i.e. the average annual growth rate of energy demand is approximately 7.2%.

Second, CES-UI and DGEED agree that most of energy consumed by final demand in the future will be petroleum-based fuel. Regarding the petroleum-

based fuel, DGEED estimated the portion of petroleum-based fuel demand to the total energy demand would approximately remain the same from 2000 until 2010. CES-UI, on the other hand, estimated that the portion of petroleum-based fuel demand to the total energy demand would decrease. CES-UI predicted that the consumption of coal would increase significantly, so that the portion of coal demand to the total energy demand is increasing.

Third, the CES-UI predicted that the industrial sector would be the major consumer, followed by the transportation sector. Meanwhile, the DGEED stated that the transportation sector is the major consumer and followed by the industrial sector (see Figures 7 and 12).

Fourth, CES-UI, DGEED, and NRMP predicted that household energy demand grew with an annual rate higher than 5% in the next twenty years. CES-UI expected the annual rate would be as high as 10% to 13%, DGEED 6%, and NRMP 7% to 9% (see Table 6). CES-UI also predicted that 28% to 31% of energy consumed by household would be electricity, while DGEED expected approximately 59%, and NRMP 16% to 34%.

Table 6

	ANNUAL GROWTH RATES OF HOUSEHOLD ENERGY DEMAND	
	2000-2010	2010-2020
CES-UI	13%	10%
DGEED	6%	
NRMP	9%	7%

Fifth, CES-UI, DGEED, NRMP agree that crude oil is still the main source of energy for the next decades. CES-UI and DGEED expected that natural gas and coal would be the next important energy sources after crude oil. *Sixth*, CES-UI and DGEED expected that renewable sources of energy only would have small share as the sources of energy; 7% according to CES-UI and 6% according to DGEED.

CHALLENGES AND PROBLEMS

There are certainly many challenges for Indonesia with regard to the expected rapid growth of energy demand. In general, there are three main challenges: (1) finding enough funds to develop new energy production facilities; (2) finding new resources and managing currently available natural resources as energy sources; and, (3) managing emissions from the use of energy.

Development of new energy resources and its supply infrastructure is currently quite costly for the country, particularly since Indonesia has yet to completely revive from its economic crisis. Historically, development of energy supply infrastructures highly depended on foreign financing. The increasing scarcity of available foreign financing for the country will definitely affect addition of supply capacity, at least in the immediate future, noting that the energy sector is highly technology intensive and capital intensive.

Proper management of natural resources as energy sources is another challenges that Indonesia has to face. Indonesia highly depends on crude oil

as the energy sources for the country. Furthermore, it is expected that in around 2014 crude oil import will be higher than that produced. The decrease of crude oil export will generate a reduction in Indonesia foreign income. The growing import of crude oil will also increase the dependency on foreign supply, thus adding the burden to energy supply security. Clearly, Indonesia needs to diversify its energy resources. An option to choose is to intensify the development of renewable resources. As mentioned before, the role of renewable resource, such as hydropower, solar, and ocean thermal energy conversion, is very low. Indonesia is maritime country located at the equator. There are certainly abundant possibilities to develop water and solar energy resources.

Another problem with crude oil, and actually all fossil fuels, as energy resources, is their pollution emitted. The combustion of fossil fuels produces gas emissions, such as CO_2 , NO_2 , SO_2 , and CH_4 . These gas emission, which is commonly known as "greenhouse gas emission", generates global warming and is also dangerous to human health.

Fossil fuels supplied approximately 93%-95% of total primary energy consumption for the past fifteen years (see Table 1) and the trend is upward sloping (Figure 2). This fact brings consequence that there will be an increase in greenhouse gas emissions too. In the future it is expected that the amount of air pollution emitted from the use of energy will increase significantly (EIA, 1999a; and CES-UI, 2000).

CURRENT ADOPTED ENERGY POLICY

Basically, the currently adopted general energy policy by the Indonesian government contains the vision and implementation strategies in: (1) the development of Indonesia's energy resources; (2) the use of energy resources; (3) the impact on the environment; (4) the role of market in the energy sector; and, (5) the development of rural energy resources. This general policy is drafted to give certainty to the private sector, other government agencies, and general public about the national effort towards the optimum and rational use of the country's energy resources.

The general energy policy in Indonesia consists of five major policies and nine supporting policies. The five major policies are (Bakoren 1998; and Departemen Energi dan Pertambangan 2000): (1) diversification of energy resources, (2) intensification of searching for new reserves, (3) conservation of energy, (4) implementation of market economy, and (5) consideration to the environment. While the nine supporting energy policies, which should be implemented under the umbrella of the five major energy policies, are: (1) promoting larger role of private sector; (2) providing fair competition and transparent process in infrastructure development; (3) implementing consistent derivative policies; (4) imposing standardization and certification of energy technology and energy installations; (5) improving human resources; (6) enhancing energy information system; (7) focusing the activities of research

and development in the field of energy; (8) drafting the government's policy on energy and co-ordination of energy development; and, (9) Implement a fair licensing system to participants in the energy sector.

FINAL REMARKS

One could see that the Indonesian five principles and nine supporting policies seems to answer the problems and challenges in meeting the future energy demand, particularly from the supply side of energy. However, whether or not the Department of Energy is able to implement these policies remains a big question. Let us look at the case of implementing the first principle of Indonesian energy policy, which diversification of energy resources. From Figure 5, one can see that energy sources in Indonesia are not diversified. Crude oil has been always the main source of energy in Indonesia and contribution of renewable energy has always been trivial. The fact presented in Figure 5 tells us that it has been very difficult for Indonesia to be able to fully implement their energy strategy.

Another important example of how difficult to implement the Indonesian five principle of energy policy is the high subsidy of petroleum-based fuel prices. Kerosene, high-speed diesel oil, and gasoline are highly subsidized so that their prices are approximately 80%, 70%, and 40% lower than the average world market prices, respectively (Said 2000). To date, however, Indonesian government is not able to eliminate this

subsidy. This subsidy is against the market economy policy, which is the Indonesian government principle energy policy number four. Furthermore, the low petroleum-based fuel prices caused by the subsidy provide no or less incentive for Indonesian to do energy conservation, to search for new reserves, and to diversify their energy uses from petroleum-based oil to gas or renewable energy. The low prices could induce a high increase in the future consumption of petroleum-based fuel, hence increasing the level of air pollution. Increasing level of air pollution is a violation of Indonesian five principle of energy policy number five, i.e., consideration to the environment.

It is also interesting to note that energy policies planned by the Department of Energy focus on the supply side of energy. For the demand side one could suggest that Indonesia should also implement strategies that provide consumers to diversify the types of energy use and to increase their efficiency in using energy. Therefore, the success of the Indonesian government energy policy in meeting the future energy demand, that doubles every ten years, remains to be seen.

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LESSONS FOR EAST TIMOR The Experience of PNG

Written by Andrew Elek

Published by: Centre for Strategic and International Studies (CSIS), Jakarta

This publication, which was originally a paper presented at Dili Economic Policy Forum, was written by Dr. Andrew Elek who has worked extensively in development economics in the South Pacific as well as in South Asia. His deep understanding of the economic problems of Papua New Guinea (PNG) resulted from his experience as a senior official in the PNG Ministry of Finance from 1975-1979.

The author sees some similarities between PNG and East Timor; hence, some of PNG's experience is considered relevant to East Timor. There are some lessons to be learned from PNG's success as well as from the mistakes it had made. This book presents sections that set out some features of the path trodden by PNG and its leaders since 1975. The implications for East Timor decision-makers are noted along the way.

This book consists of three sections. The *first* section, focusing on PNG's transition to independence, discuss PNG's constitutional and legal environment and open market. The *second* section examines PNG's deteriorating performance and crises in 1990s. Concluding remarks are presented in the *third* section.

This volume is very useful particularly for those who are interested in South Pacific as well as South Asian studies.

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Immigrant Entrepreneurs in Malaysia: The Case of Indonesian Construction Sub-Contractors

Abdul Rashid Abdul Aziz and Hafiz Hashim

INTRODUCTION

JUDGING from people movement over the last two decades or so, Malaysia is well integrated into the global economy. For a relatively small country, the absorption rate has been high, alarming various local quarters, such as the Malaysian Institute of Economic Research (MIER). This respectable think tank opined that out of a labor force of about 9 million, one fifth is estimated to be made up of foreign nationals, a ratio which is among the largest in the world (*The Star* 1998b). Notwithstanding this worrying statistic, foreign labor has in no small measure contributed towards the impressive economic growth during the 1987-1997 period (see Table 1). It certainly has made Malaysia's dream to become an industrialized nation by the year 2020 closer to reality.

As for the construction sector, foreign labor has certainly provided the vital remedy to the yawning labor void re-

sultant of an even higher growth than the national economy. Local labor has been fairly inelastic to cope with rising workload. The increasing number of Malaysian construction workers migrating to high wage countries, such as Japan, Taiwan and Singapore had exacerbated the local predicament (Abdul Rashid 1995). For sure, virtually all construction projects in Malaysia, from world-class high-rise buildings and infrastructure to the most mundane, would not have been completed had it not been for these foreign site operatives.

Most of the contemporary immigrant workers in Malaysia have been Indonesians. This applies particularly to the construction sector, whether as part of the regularized (see Table 2) or undocumented (see Table 3) constituents of the construction workforce. If the statistics in these tables can be taken as representing the whole, Indonesians make up approximately three-quarter of foreign site operatives. Using the Union of Employee in Construction Industry's

Table 1

**TRENDS IN MALAYSIAN CONSTRUCTION OUTPUT
AND GROSS DOMESTIC PRODUCT (GDP)
(at 1978 prices)**

Year	GDP (millions of RM)	Percentage Growth	Construction in GDP (millions of RM)	Percentage Growth
1985	57,093	-1.1	2,738	-8.4
1986	57,751	1.2	2,354	-14.0
1987	60,863	5.4	2,077	-11.8
1988	66,303	8.9	2,133	2.7
1989	72,297	9.0	2,380	11.6
1990	79,329	9.7	2,832	19.0
1991	86,149	8.6	3,240	14.4
1992	92,866	7.8	3,619	11.7
1993	100,617	8.3	4,023	11.2
1994	109,976	9.3	4,589	14.1
1995	120,272	9.4	5,385	17.3
1996	130,621	8.6	6,150	14.2
1997	140,684	7.7	6,732	9.5
1998	133,939*	-4.8*	5,439*	-19.2*

Source: Economic Reports, Ministry of Finance, various years.

* estimate

Table 2

**ISSUANCE OF TEMPORARY WORK PASSES
IN PENINSULAR MALAYSIA
(by Country of Origin and Sector
July 1992 - December 1995)**

Nationality	Con- struction	Non-Con- struction	Total
Indonesia	92,805	183,244	276,049
Bangladesh	26,484	62,627	89,111
Philippines	1,160	28,968	30,128
Thailand	6,342	16,474	22,816
Others	3,339	3,571	6,910
Total	130,130	294,884	425,014

Source: Azizah (1996), adapted from Malaysia Immigration Department.

Table 3

**NUMBER OF ILLEGAL FOREIGN NATIONALS
CAUGHT BY MALAYSIAN POLICE
(by Country of Origin and Sector
February 1993 - 1996)**

Nationality	Con- struction	Non-Con- struction	Total
Indonesia	47,948	30,152	78,100
Bangladesh	11,130	20,843	31,973
Philippines	1,290	11,158	12,448
Thailand	600	5,661	6,261
Others	1,079	3,536	4,615
Total	62,047	71,350	133,397

Source: Fieldwork, The Police Force.

(UECI) estimate that 80% of the roughly 630,000 construction workers were foreigners (*Sunday Star* 1996), it can be further extrapolated that approximately 60% of the entire construction workforce comprises Indonesians.

It is an established trend in many labor-recipient countries that immigrants harbor self-employment aspirations as a relieve from discrimination in the labor market and also to ascend the social ladder (Borjas 1986; OECD 1990), e.g., the Turks in Germany (Sen 1990), South Asians in the United Kingdom (Hiro 1992), Gujaratis in the United States (Daniel 1994). While Indonesians earning a living as petty traders illegally in major towns and cities in Malaysia have been well publicised by local media, the transformation of Indonesian site operatives to sub-contractors has eluded public and academic attention. Even though they currently occupy the lower echelons of the contracting hierarchy, the fact that they have occupied this economic niche is a progression worth noting. This paper attempts to make up for the dearth of knowledge in this area by revealing the findings of several related studies which pertain to Indonesian sub-contractors.

METHODOLOGY

This paper is the culmination of three research projects, the latest of which gave exclusive focus on Indonesian sub-contractors. For the latter, getting accurate information from the sample population proved to be the greatest

challenge as immigrants by nature shun scrutiny. Furthermore, no immigrant sub-contractor would admit to an outsider of their independence, as they are not permitted by law to run their own business. Direct observations of the apparent chaotic activities on construction sites often fail to make distinctions between site operatives and employers. For this study, 12 Indonesian sub-contractors operating in the Penang area were studied. Winning the confidence of the sample population was accomplished over a period of time. A series of informal visits were made to gather direct observations and survey responses from the targeted Indonesian sub-contractors. These visits were made during and after working hours. Nine site managers working with major local main contractors were also approached to solicit their experiences of dealing with Indonesian sub-contractors.

This paper also draws upon the findings of another recently completed study which was funded by Malaysia's Ministry of Science under the IRPA (Intensification of Research in Priority Areas) program, for which one of the authors acted in the capacity of a project leader. This IRPA research project examined the incidence of foreign labor utilization in the local construction industry, in particular on the recruitment, employment and treatment aspects. This particular research undertaking was a major exercise in its own right. Three different approaches were adopted to compile data. The *first* was a questionnaire survey on 58 construction employers, 1,342

foreign and 768 local site operatives in Penang, Klang Valley and Johor Bahru - the three urban centres with the highest concentration of site operatives, both foreign and local. In preparing this paper, data compiled from the 1,131 Indonesians was particularly utilized. The *second* approach entailed direct observations on no less than 20 sites scattered throughout the same three sample locations each for a period of three months. Site managers and contractors who were involved in these projects were interviewed as part of the process. Finally, the research also covered 30 or so interviews with relevant government agencies, trade unionist, foreign embassy officials and journalists.

The *third* research project was a small-scale predecessor of the IRPA project which was conducted by one of the authors for the International Labor Organization. Just as with the IRPA study, the inter-relatedness of the ILO work to the thrust of this paper warrants the inclusion of some of its findings here. In fact, it was the IRPA and ILO studies that gave rise to the exclusive study on Indonesian sub-contractors mentioned at the beginning.

MIGRATION FLOW OF INDONESIANS TO MALAYSIA

The incidence of Indonesian sub-contractors in the Malaysian construction industry is inextricably bound to people movement from Indonesia to Malaysia. For this reason, a short descrip-

tion of this phenomenon makes an important prelude to the discussions below.

Throughout the course of history, there has been a natural free flow of people from the Indonesian islands to Malaya as it was known then (Baharin, 1965), with the consequence that Indonesian immigrants have long been a feature of the demography of Malaysia (Abraham 1997). Contemporary Indonesian migrants began working as site operatives from the mid-1970s onwards in cities, such as Johor Bahru and Kuala Lumpur (Azizah 1993). Brought in surreptitiously to work in the plantation sector, they were eventually caught up in the rural-urban drift. People movement from Indonesia to Malaysia intensified during the 1980s and 1990s. Just as with the economic slowdown of the mid 1980s, the current economic malaise did not deter Indonesian migrants from seeking better fortune in Malaysia. The Malaysian government's handling of Indonesian immigrants has been subjected to much criticism. From being lackadaisical towards the surreptitious inflow of Indonesian immigrants in the late 1970s and a large part of the 1980s, labor immigration became subjected to hastened and erratic policy interventions in the late 1980s and 1990s. Eradicating the illegal inflow of Indonesians has been impeded in part by innumerable 'institutionalized' underground networks linking Indonesian villages to Malaysia workplaces (Hugo 1993). Penalties for harboring and employing illegal workers had also been weak. Moreover, employers

were already conditioned by the initial government's acquiescence to the illegal presence of Indonesian immigrants to the extent that various instituted measures to document them had consistently met measured successes only.

As indicated earlier, what began as a trickle of illegal inflows from Indonesia in the 1970s magnified into a tide of mankind by the 1990s. According to the Indonesian government, there were 1.4 million Indonesians working in Malaysia by 1997 (*The Star* 1997c). Till today, Indonesians make up by far the largest nationality group among the foreign workforce in Malaysia. It is the estimate from the IRPA study that at least every other immigrant in Malaysia is currently an Indonesian. Furthermore, the construction industry is one of the more favored economic sectors by job-searching Indonesians. The same IRPA study estimates that three-quarters of foreign site operatives in Malaysia are Indonesians. Considering that only 20% of the total construction workforce was reckoned to be local (*Sunday Star* 1996), the presence of Indonesians on construction sites is prominent indeed.

DIVISION OF LABOR IN THE CONSTRUCTION CONTRACTING SYSTEM

An analysis on Indonesian sub-contractors would be incomplete if the division of labor in the construction industry is not described. The section here points to industry traits which foster the upward mobility option of site op-

eratives. As practiced in many parts of the world (Ball 1988; Furusaka 1991; Assaad 1993), main contractors in Malaysia rarely partake directly in any of the trades. Instead, actual construction work is assigned to sub-contractors who in turn may engage smaller enterprises to perform sub-work packages. Put simply, the *de facto* performers of productive work are in fact these entities below the main contractors. The lowest level may actually be a work gang headed by a leader who negotiates work on a work package rather than daily basis from their erstwhile employers. Sub-contractors sub-letting construction work to sub-sub-contractors is not peculiar to Malaysian industrial setting but in fact prevalent elsewhere such as in the United Kingdom (Clarke, 1980). In Malaysia, four levels were found to be about the maximum that can prevail in the contracting hierarchy even on the largest of construction projects due to the ever decreasing profit margins.

While some work sub-contractors are specialists, others may offer multiple trades. Labor sub-contractors provide manpower only and not construction material. Many sub-contractors, particular the smaller enterprises, operate in the informal economy. Needless to say, they do not have registered companies and therefore do not appear in the economy's formal record. With the availability of mobile phones, there is even less need to have fixed offices. Many main contractors start off by progressing from the lowest ranks of the contracting hierarchy. Not all sub-contractors are small though.

Some have the capacity and capability to operate across several projects simultaneously. Indeed despite their potential, some desist becoming main contractors to avert the costly business of tendering for projects and scrutiny from the Inland Revenue Department. Besides, the absence of any direct link absolves them from any liability to the client.

In this contracting arrangement, the main contractors serve primarily to provide overall supervision and co-ordination necessary for the integration of the various work packages, as well as common site facilities such as electricity and water supply, scaffolding and hoists and site security. Main contractors usually maintain only a skeletal gang of workers, if only to perform general house-keeping duties on site (e.g., general cleaning, loading and unloading, and hosing down of lorry wheels at exit points). This mode of production has evolved as a consequence of workload volatility and competitive bidding rather than, as in many economic sectors to evade stringent labor laws (Edgren 1990). While the manufacturing sector seeks to maximize efficiency through capital investment and such like, the construction industry's preoccupation has always been to maintain flexibility, minimize risk and maximize liquidity (Hillebrandt 1984). By sub-contracting, labor becomes a flexible input (Appelbaum 1996). Legal responsibility for wages, benefits and health are shifted to the independent sub-contractors. And as construction is labor-intensive, sub-contracting can very much reduce the vulnerability of

main contractors to rapidly changing work orders. Main contractors are free to contract with whomever, whenever and wherever they please. Economies of scope (expertise across various types of construction work) rather than economies of scale are the greater imperative in the face of fluctuating demand.

Sub-contractors, sub-sub-contractors and sub-sub-sub-contractors have their own work gangs. Each work gang is often led by someone experienced. Furthermore, the entire labor force of the contractor, which may consist of several work gangs, may be headed by another higher individual. And so there may be many leaders (or *kepala*) either vertically and horizontally within the labor structure. In very small set-ups, the *kepala* himself is the entrepreneur. Instructions and information between employer and workers, and vice versa, are made through the *kepala*. Site operatives normally do not to take heed of any commands even from main contractors unless this channel is obeyed.

Main contractors try their utmost to maintain their cadre of proficient and reliable sub-contractors from project to project as they draw a lot of competitive strength from the latter. A semi-permanent arrangement prevails without the operation of explicit contracts. Trust underpins the stable informal economic relationship (Eccles 1981). Deals are struck through negotiations rather than competitive bidding. Main contractors may even take on the role of 'big brother' for their valued

sub-contractors by extending loans and looking after their other needs (Navamukundan 1992). Conversely sub-contractors may be highly dependent on the main contractors despite their autonomy, to the extent that their fortunes may be exclusively intertwined with that of the latter. Sub-contractors may even be willing to work on projects outside of their normal geographical reach simply to maintain that special relationship with the main contractors. While on the one plane, the contracting business is characterised by transience and dynamism (e.g., client change, design variability, geographical mobility), at the production level the main contractor-sub-contractor working arrangements are typified by greater stability.

INDONESIANS AS CONSTRUCTION SUB-CONTRACTORS

Enterprising Indonesians have managed to create an economic niche for themselves from the prevailing construction mode of production. It is interesting to note that of the motley of foreign site operatives (1,342 individuals in all) from Indonesia, Bangladesh, Myanmar, Philippines, Thailand, Singapore, India and Pakistan surveyed during the IRPA research project, only the Indonesians expressed their ambition to become sub-contractors (0.5% of the sampled Indonesians to be exact). The stimuli for wanting to become self-employment include for the experience (37.5%), higher income (25.0%) and lighter work (12.5%). These responses

warrant explanation. Some ethnic groups in Indonesia (e.g., Minangkabau) value migration as an inherent process in attaining manhood (Bale and Drakakis-Smith 1993). The desire to experience becoming a sub-contractor may be intricately linked to this cultural trait. Becoming one own's boss offers the tantalizing chance of ascending the economic ladder higher than their formal education level would permit (Chiswick 1976; Blau 1986).

Indeed, of the sampled Indonesian sub-contractors, the highest education attainment was secondary school. Yet, by becoming sub-contractors, the majority managed to achieve economic well beyond that warranted by their formal education (see below). To cite one example, ever since becoming a sub-contractor one of them has been able to remit RM2,000 every month instead of RM300 when he was a wage-earner. By becoming their own boss also, these people are able to delegate heavy manual construction work to their workers. Thus they savour work freedom normally denied to workers. The sampled Indonesians sub-contractors point to other stimuli for becoming self-employed. One respondent indicated that self-employment propensity was prompted by the successes of established Indonesian sub-contractors. While another was encouraged by his father to venture into this field even though he himself failed in his attempt. Yet another was moulded by his Chinese employer.

The vertical division of labor permits experienced, ambitious and bold Indonesians entry into self-employment by initially working for work packages rather than being paid for every productive days. At the very least, they can function as labor-only rather than trades sub-contractors. Of the Indonesians who were surveyed for the IRPA research project, 1.1% of them were found to make a living in this manner. Another manifestation of early entrepreneurship is by working during off days or hours performing minor renovation or extension work for house-owners and such like. 0.9% of Indonesians from the same surveyed batch indicated this as their off-hours activity. While being remunerated based on work packages and part-time moon-lighting may provide the germinal beginnings of full-fledged sub-contracting, not all Indonesian site operatives make the drastic change-over, possibly because of fear of legal reprisal, or simply insufficient motivation. Thus there is self-selection among Indonesian immigrants when it comes to adopting the self-employment choice.

Furthermore, technological, financial and institutional barriers are actually quite low if not non-existent. Practical work knowledge is gained through the informal apprenticeship arrangement under the supervision of local skilled workers who tend to be Chinese, themselves descendants of earlier immigrants. The transmission of work skills does not take long. It takes on average about six months to reach the semi-skilled status and about three years to

become fully skilled (Osmani 1986). This is affirmed by the field study. Of the sampled Indonesian sub-contractors, one was already in the contracting line while another was a construction worker in Indonesia. The rest (i.e., 83.3%) had worked as fishermen, farmers or even unemployed. On average these Indonesians worked as site operatives in Malaysia for a duration of 7.3 years before branching out on their own.

Under the guidance of their Malaysian employers who tend to be descendants of immigrant Chinese themselves, they learned not only the construction trades, but also about the rudiments of running their own construction outfit—e.g., making technical calculations, preparing quotations, and understanding profit and loss concepts. It is during this time also that they came to realize how easy it is to start their own businesses. During their tenure as employees also, they cultivated social networks with first-tier sub-contractors, project managers attached to main contractors and consulting engineers which are so vital in informal economic relationships. Thus, the contribution of the Chinese contracting community in fostering Indonesian sub-contractors is therefore a significant point to note.

Low financial constraint also renders the ease of entry into the sub-contracting realm. Minimal capital start-up costs is necessary as no office and special equipment is required. Materials used for the production process can be bought on term credit which can be cleared from

monthly progress payments. With labor-only sub-contractors, the initial outlay is even lower or non-existent. The Indonesian outfits blend well in the thriving mini- and micro-enterprises that exist informally in the economy. The army of other contracting entities that work on construction sites subsumes their business existence.

Still, despite the industry-specific characteristics which facilitate the emergence of entrepreneurs (see above), the Indonesian sub-contractors would not have appeared had it not been for the acceptance and assimilation by the Chinese contracting fraternity. 87.5% of local site managers from 9 main contractors operating in Penang opined that these immigrant sub-contractors have integrated into the existing production system. Malaysia is unique in that the construction industry (indeed many other economic sectors as well) is dominated by descendents of earlier Chinese immigrants. It was earlier indicated that trust plays an important role in the informal economic relations (Eccles 1981). Such 'network of trust' are typically mediated by intense familial and ethnic ties which minimise risks of misunderstanding, opportunism, and quality and delivery problems (Appelbaum 1996).

The dominance of the Chinese in the highly fragmented industry has somewhat impeded the *bumiputera* Malays from making a significant impact on the industry despite years of government assistance. A fair proportion of govern-

ment contracts is reserved to the latter annually. The entry of Indonesian entrepreneurs into the sub-contracting hierarchy can be traced to the respect they command as site operatives. During the years that they have been here, the Indonesian immigrants have earned a solid reputation for their diligence, hardiness and desire to learn (Abdul Rashid 1995). They submit themselves to unremitting toil day and night without complain. Not everyone including locals can withstand the punishing manual construction work under relentless hot weather. It is not surprising that 73.6% of the 58 surveyed construction employers for the IRPA research project indicated Indonesians as the most preferred to engaged amongst foreign nationals. Commendable attributes possessed by Indonesians as site operatives facilitated their membership into the Chinese contracting community. Here again, we must take cognisance of the contribution of the Chinese contracting community in permitting the Indonesians to penetrate their dense business network.

Finally, the construction boom of 1987-1997 provided a major catalyst for the proliferation of sub-contractors. With intense construction workload, production work had to be diffused to an even wider number of small operating units, thus prompting many ambitious workers to become independent. This can be gleaned from official statistics which indicate a parallel increase in the number of registered construction establishments with growth in construction demand. The same conducive eco-

conomic climate was also opportune for the emergence of Indonesian sub-contractors.

As a result of a confluence of the factors mentioned above, Indonesian sub-contractors have become ubiquitous in Malaysia in recent years, a fact which has not gone unnoticed by Master Builders of Malaysia (MBAM), the trade organization representing the largest construction companies in Malaysia. The table of randomly selected construction projects in Penang, Kuala Lumpur and Johor Bahru below shows their pervasiveness. Even though the majority of these sub-contractors may be located

on the lower tiers of the sub-contracting hierarchy, they are nonetheless numerically important. Site managers from 9 local major contractors indicated that 45.5% of all sub-contract works are now awarded to Indonesian sub-contractors. Our survey of the Penang region indicates that they are involved in all sorts of trades, such as demolition, roofing, window and door fixing, but particularly pronounced in formwork erection, concreting, bar-bending, brickwork, plastering and rendering. Telephone interviews with construction executives in Kuala Lumpur also point to the greater number of Indonesian

Table 4

**KEY DATA ON THE ECONOMY, CONSTRUCTION INDUSTRY
AND CONSTRUCTION ESTABLISHMENT SINCE 1984**

Year	GDP* (Percentage growth)		Construction in GDP* (Percentage growth)		Number of construction establishments	
1984	57,741	(7.8%)	2,988	(4.2%)	5,377	
1985	57,093	(-1.1%)	2,738	(-8.4%)	5,187	(-3.5%)
1986	57,751	(1.2%)	2,354	(-14.0%)	5,011	(-3.3%)
1987	60,863	(5.4%)	2,077	(-11.8%)	4,595	(-8.3%)
1988	66,303	(8.9%)	2,133	(2.7%)	4,882	(6.2%)
1989	72,297	(9.0%)	2,380	(11.6%)	5,466	(12.0%)
1990	79,329	(9.7%)	2,832	(19.0%)	6,012	(9.99%)
1991	86,149	(8.6%)	3,240	(14.4%)	6,610	(9.95%)
1992	92,866	(7.8%)	3,619	(11.7%)	6,991	(5.76%)
1993	100,617	(8.3%)	4,023	(11.2%)	7,141	(2.15%)
1994	109,976	(9.3%)	4,589	(14.1%)	N.A.	
1995#	120,272	(9.4%)	5,385	(17.3%)	N.A.	
1996*	130,621	(8.6%)	6,150	(14.2%)	N.A.	

Source: Economic Reports, Ministry of Finance, various years; Annual Survey of Construction Industries, Department of Statistics (1995).

* in millions of RM.

Table 5

**SURVEY ON THE LEVEL OF UTILIZATION
OF INDONESIAN SUB-CONTRACTORS
ON RANDOMLY SELECTED
CONSTRUCTION SITES IN THE PENANG,
KUALA LUMPUR, AND JOHOR BAHRU**

Trades	Kuala Lumpur		Johor Bahru		Penang	
	Site A	Site B	Site C	Site D	Site E	Site F
Woodworking	Y*	Y	Y	Y	Y	Y
Bricklaying	Y	Y	Y	Y	Y	Y
Roof tiling	Y		Y	Y	Y	Y
Plumbing	Y		Y	Y		
Concreting	Y		Y	Y	Y	Y
Electrical wiring						
Ceiling fixing	Y	Y	Y	Y	Y	Y
Metal working	Y	Y	Y	Y	Y	Y

Source: Field observation and Sheikh Mustapha (1998).

*Y denoting Indonesian sub-contractors.

sub-contractors in these trades which happen to be basic necessities for every construction project. Skill transfer while working for local employers gives rise to their specialization in those trades as sub-contractors.

Even though this study is confined geographically to Penang, cursory interviews with construction managers in Johor Bahru alludes to the more advanced development of Indonesian sub-contractors in terms of penetration into more specialized trades some of which require qualifying certificates (e.g., steel welding, fire-fighting pipes). In Kuala Lumpur and the Klang Valley too, some Indonesian sub-contractors are highly successful indeed as evinced

from the up-market and luxurious cars they drive. The higher technical and economic attainments of Indonesian sub-contractors in these places can be attributed to their earlier headstart. Indonesian migrants have traditionally entered Malaysia through the southern states of Johor, Malacca, Negeri Sembilan and Selangor. They started making an impact on the construction scene ever since the late 1970s.

Economic Success

Of the sampled Indonesian sub-contractors, 75.0% were involved in work packages valued less than RM100,000, 12.5% was able to handle contracts up to RM300,000 while the remaining 12.5% could handle big orders in the order of RM1 million. In terms of manpower, 33.3% of the sample population had workers in excess of 100, that is to say their operations can no longer be regarded as small. Another 33.3% on the other hand had less than 20 workers each. One at least has geographical reach which extends from the Klang Valley to Penang. Naturally most of the workers are Indonesians (even particular ethnic groups), although a sprinkle of locals, Myanmars, Bangladeshis and Pakistanis were also detected. Machinery and plants of the sample population were confined to a few small and portable items such as bar-bending machines and electrical saws. Low machinery and plant acquisition can be attributed to the propensity of Indonesian sub-contractors to become labor (88.9% according to industry sources)

rather than trades sub-contractors. To a certain extent, Indonesian sub-contractors are restrained from becoming the latter as many local suppliers refrain from extending term credit facilities to them for the purchase of building materials and equipment. Still this outcome is not altogether a bad thing. Labor sub-contractors do not have to incur any financial loss for items that are damaged during handling and storage.

As personal contacts play an important role, some Indonesian entrepreneurs instead of branching out on their own alone, partner with local partners, or alternatively tap into the Indonesian networks, or both. When asked who they see their competitors, 62.5% of the sampled Indonesian sub-contractors indicated their own compatriots, 25.0% *bumiputera* and 12.5% Chinese sub-contractors. The Indonesian sub-contractors are able to secure work orders either through the network of Indonesian workers (50%), local site operatives (25.0%) and higher tier sub-contractors or main contractors (25.0%). Only 37.5% of them were entirely dependent on particular higher tier business entities for their work. The rest were constantly searching for new sources of work. For this reason, extending business contacts is an inextricable segment of the business. Interviews with local site managers reveal that reputable main contractors are generally reluctant to engage Indonesian sub-contractors directly because of company policy against engaging business entities of vague legal status (Indonesian migrants are prohibited

by law to get involved in business) and possibly client reservations.

First-tier sub-contractors and below, however, are not saddled by such constraints. In fact, because of potential management, time and cost savings, they are drawn to engage Indonesian sub-contractors. With regards to cost savings, the labor intensive nature of construction activities renders labor costs as an important consideration. Indonesian sub-contractors are able to offer competitive rates in part because they and their workers' families domicile in Indonesia where the cost of living is lower. For their part, they tend to lead frugal lives while working in Malaysia. Of course, local contractors also engage immigrant site operatives. Self-exploitation of Indonesian sub-contractors grants them the additional pricing edge. The table below shows the disparity in rates offered by local and Indonesian sub-contractors, which when applied to entire work packages lead to significant cost competitiveness. As payments are made based on the completion of work packages rather than on work duration, financial incentives drive the Indonesian sub-contractors to attain high productivity levels. On this score, by sub-contracting erstwhile employers are relieved from legal obligations such as making overtime payments even though high productivity is achieved. Feedback from construction executives in Penang is that savings of between 15-50% can be accrued by sub-contracting work packages to Indonesian sub-contractors.

Table 6

**RATES QUOTED BY LOCAL
AND INDONESIAN SUB-CONTRACTORS
FOR SELECTED TRADES**

Trades	Local	Indonesian
Carpentry	RM 1.70 per square foot	RM 1.50 per square foot
Bar-bending	RM 385.00 per tonne	RM 375.00 per tonne
Brickwork	RM 1.50 per square foot	RM 1.20 per square foot
Plastering	RM 2.90 per square foot	RM 2.60 per square foot

Source: Sheikh Mustapha (1998).

The sampled Indonesian sub-contractors have acquired varying measures of material gains, such as land, motorised vehicles and houses. 75.0% of them have acquired land either in their home country (88.8%) or in Malaysia (11.2%). Land which have been bought in Indonesia are for agricultural use. The individual who bought a piece of land in Malaysia (i.e., in Sungai Buluh) had expressed his intention to stay put in Malaysia. 66.7% of them have bought vehicles in Malaysia, either for personal or business use. While most have bought the more popular (and inexpensive) car brands (i.e., Proton Aeroback and Wira Aeroback), one has acquired an upmarket Honda. 62.5% of them have also bought vehicles for their families back home. These include vans, motorcycles and sampan with outboard motor. In addition to the 41.7% of the sample population who have bought houses in Indonesia after turning into sub-contractors, 41.7% have acquired properties in Malaysia in

the price range between RM42,000 to RM75,000. Not everyone has attained economic success in the quest for upward mobility. Two of the sampled Indonesian sub-contractors have not acquired any land or vehicles as a result of low financial returns. Worse, one had sold his land to finance his trip to Malaysia. Construction sub-contracting is highly competitive. Not everyone who joins the fray is guaranteed of success. The Indonesian sub-contractors who have made significant inroads owe their success to their own hard work and good fortune.

Competitive Strength

Indonesian sub-contractors have a competitive edge in the construction market in that they are better able to manage and motivate their compatriots than local employers. This is an important point to emphasize as construction work is by nature labor intensive. Managing the people asset is therefore a critical success factor in the industry. As mentioned earlier, hard work is something which Indonesian workers are famed for. On the surface of it, therefore, because of their hardworking disposition, there is little challenge even for locals in managing Indonesian workers. The perception of the industry is that immigrants prefer to be managed by their own compatriots, not only for ease of communication but also the greater understanding of their sensitivities. Every nationality or ethnic group, however, has its own social, cultural or even religious idiosyncracies. Of particular relevance here is the belligerent and aggressive disposition of the Indonesians, particularly the Madurese.

The construction managers interviewed during the IRPA research project indicated this trait as a drawback to engaging Indonesian workers. Statistical validation is provided by 22.2% of the surveyed 58 construction employers who echoed this view. Clashes between Indonesians (normally along ethnic lines) on construction sites, often sparked by the most trivial of incidences, can rapidly deteriorate into deathly episodes. The situation is aggravated by Indonesians making construction sites not only their work place, but also their living space. Hence hostility is evinced not only from work gangs cleaved along ethnic lines but also *kongsi* (accommodation provided by the main contractor to site operatives for the duration of construction projects) which is spatially separated in the same manner. Indonesians make up the bulk of *kongsi* inhabitants by virtue of their huge numbers. Local workers normally do not use *kongsi* unless their homes are too distant for daily commuting. Azizah Kassim (1986) indicates that some local construction employers are only willing to farm out work packages to Indonesian *kepala* because of the difficulty in handling the mercurial Indonesians. Our own study also coheres with Azizah's study in this regard. But there is also another attraction to sub-letting work packages to Indonesians, and that is reduction of costs. By sub-contracting, the erstwhile employers are relieved from the legal obligations such as making overtime payments. Feedback from construction executives in Penang is that savings of between 15-50% can be accrued

by sub-contracting work packages to Indonesian sub-contractors.

Although the sampled Indonesian sub-contractors do not adhere to the local labor laws (which is symptomatic of the Malaysian contractors as well), they do take care of their workers in an ad hoc manner. Various social and economic assistance are provided to their workers, e.g., hospital and schooling expenses, extend loans, pay for return passages, assist in remitting money and pay for the release of their detained workers by the Police or Immigration Department. The sub-contractors acknowledged proffering 'coffee money' to corrupt law enforcement officers to avert harassment. Meeting the needs of workers to make the latter indebted and therefore bonded to their employers is in fact a pervasive practice of the industry and not the exclusive preserve of Indonesian sub-contractors (Lee and Sivananthiran 1995). At the same time, they too are well aware of the possibility of skilful workers leaving to become sub-contractors in their own right. In fact, the sampled Indonesian sub-contractors indicated that nurturing their compatriots to become budding entrepreneurs is implicit in the employment arrangement.

Competitive Weakness

Industry feedback indicates that Indonesian sub-contractors lag behind *bumiputera* and the more competent Chinese sub-contractors in overall performance. Thus, there remains a long adjustment process before the former can pose a real threat to the local players. Comments,

such as the incapability of Indonesian sub-contractors to carry out complex work instructions or conceptualize unconventional design concepts have been made by a few interviewees. The consensus from the 9 local site managers is that for certain aspects of the contracting line, the Indonesians trail behind local counterparts on skills level, wastage control, supervision, non-conformance control, occupational safety, work quality, technical mastery, documentation control, finishes, response to query and financial solidity. Yet, they are on par with (i.e., workforce, corrective work, quotation) or even better than (i.e., productivity, coordination, scheduled progress) the *bumiputera* sub-contractors. They can even match the Chinese entrepreneurs on co-ordination. For the moment, however, because of their general weaknesses, higher-tier local sub-contractors are particularly selective when engaging Indonesian sub-contractors, hinging their decisions on several factors such as their performance credibility (53.9%), reputation (30.8%) and recommendations by contacts (15.3%).

LONG-TERM RAMIFICATIONS OF THE EXISTENCE OF INDONESIAN SUB-CONTRACTORS

Having described their background, the question arises as to whether the Indonesians will be an irrevocable feature of the Malaysian construction industry. Some background information can give some hints to this question. Of the sampled Indonesian sub-contractors, 33.3% of them lived in *kongsi*, which suggest that they lead semi-nomadic lives. This, however, does not automatically

preclude them from operating as sub-contractors indefinitely. 66.7% of the sampled Indonesian sub-contractors have permanent resident status by virtue of red identity cards in their possession. With this document, these people are able to continue with their business in Malaysia unharrassed. Significant to this study, this statistic points to a high probability of Indonesian sub-contractors becoming an enduring feature of the Malaysian construction industry. In fact the sampled Indonesian sub-contractors indicated that they have no intention of leaving their current business for as long as they are in Malaysia. Sub-contracting, even for the less successful, offers the best economic hope for their future.

How these people have come to acquire red identity cards remains elusive. Immigrant Indonesian are generally reticent when asked about it. The Opposition party had accused the government of proffering permanent resident status to Indonesians to increase the *bumiputera* voters (Azizah Kassim 1993), an allegation which has openly resolved. One thing is certain, and that is trafficking of humans is a very lucrative business. Syndicates, sometimes involving civil servants, selling fraudulent identity cards have occasionally been exposed by the police. Forged entry permits and red identity cards have been sold in the open market for between RM1,800 and RM3,000 (*The Star* 1997). Those that have been caught and highlighted by the press can only be the tip of the iceberg. Here only a sample of reported cases are highlighted to indicate the seriousness

of the problem. In October 1996, 11 people including 4 civil servants have been places under ISA for procuring and selling genuine documents, such as birth certificates, identity cards and passports illegally (*New Straits Times* 1996). In Sabah especially, the problem is very serious. It is alleged that certain village and district-level officials were helping illegal immigrants obtain certain documents to certify that they are natives of the state (*The Star* 1997). In May 1998, Six National Registration Department officers and a former employee in Sabah were detained under ISA for alleged involvement in the issue of fake Malaysian identity cards in Sabah (*The Star* 1998a).

Indonesian migrant workers are prohibited by Malaysian law to start up their own business. Legal surveillance in the future can easily be thwart by having local people 'fronting' for these immigrant businesses, just as what the Turks have done in Germany (Sen 1990). Here in Malaysia too, there has been a tradition of some Malays acting in the same vein to Chinese entrepreneurs for the latter to secure *bumiputera*-reserved contracts, thus giving rise to the derogatory term 'Ali Baba.' In similitude, for the Indonesian entrepreneurs who are unable to possess red identity cards, the alternative would be to work behind local front men, as is already happening. Whatever it is, two future scenarios can be posited. One is that these enterprises might continue to exist on a small-scale basis functioning on the fringes of the contracting system to avert official sanction or anti-immigrant backlash. On the other hand, they may progress to become

major credible enterprises to compete head-on with fledgling *bumiputera* contractors or even Chinese companies. The complementary role to local enterprises which Indonesian sub-contractors played during the 1987-1997 high growth economic period may turn to something less supportive in less prosperous times. The current precipitous downturn in construction orders, dramatic it may be, is still too short a period for any scenario to be fully played out. The permanence of the Indonesian sub-contractors in Malaysia would have serious repercussion on the country's industrial policy even if they remain at the lower levels of the sub-contracting hierarchy, most notably the nurturing of *bumiputera* contractors.

Indeed, encroachment of immigrant sub-contractors has already stirred resentment among some local contractors which manifests in among others, arguments on construction sites especially when interfacing or collaborative work is a requisite. Certainly 62.5% of the surveyed local site managers approached for this study indicated that Indonesian sub-contractors pose a threat to the economic success and even survival of their local opposites. Furthermore, 85.7% opined that the future looks bright for these Indonesian entrepreneurs even though they are encumbered with many operational weaknesses for the moment. Furthermore, as indicated earlier, the sampled Indonesian sub-contractors did not express any intention of shifting into other economic sectors. These responses point to the continuance of Indonesian sub-contractors in the Malaysian construction industry.

Should there be sufficient Indonesian business entities in the Malaysian construction industry over the long term, other equally deleterious implications must be considered. With Indonesian sub-contractors becoming permanent feature of the contracting fabric in Malaysia, the incidence of Indonesians as laborers in this important economic sector is likely to be self-perpetuating, as typified by experiences from elsewhere, e.g., Afghan's in New York's fast-food chicken restaurant and Pakistani grocers and butchers in England (Stalker 1994). Indonesian sub-contractors are more likely to engage fellow compatriots who may then be inspired to subsequently adopt the self-employment option. Chain migration by which pioneering immigrants bring in one relative after another with the former arrivals serving as bridgeheads for newcomers has been found to be particularly relevant as a causation of Indonesia-Malaysia people movement (Lightfoot, 1990; Hugo, 1993). Social network of this sort plays an important role in many aspects including, and significant to the discussion here, the entry into the job market.

The recent IRPA project gives statistical validation to this phenomenon. 37.6% of the sampled Indonesian workers indicated that their reason for entering the construction industry in Malaysia was because of friends and relatives who were already employed in the sector. In fact, 53.0% of them indicated that they were able to secure their present employment through social network. Furthermore, 35.4% of the sampled

Indonesian site operatives indicated that they assisted their compatriots in securing construction jobs. In fact, what can conceivably happen, either presently or some time in the future is that the ethnic hiring networks among the proliferating Indonesian sub-contractors might discriminate again local workers, as happened in New York City's immigrant businesses (Bogen 1987), a situation which would play into the hands of the Malaysian Trade Union Congress (MTUC). MTUC has consistently protested against the inflow of immigrant workers, alleging that the employment-seeking locals have being displaced as a consequence (Gill 1988). Unless arrested by policy and regulative intervention, the self-perpetuation of immigration would have far-reaching consequences on Malaysia's economy, demography and politics.

Some writers (e.g., Hugo 1993; Hairi Abdullah 1996) note of the racial, cultural and religious similarities of Malay Indonesians with the Malays in Malaysia. The phrase '*bangsa serumpun*' has been coined to invoke this imagery. Yet, contemporary Indonesian immigrants have not integrated well into the Malay populace in Malaysia. Living in enclaves on construction sites as well as in squatter areas, they maintain their own dialects, religions and socio-cultural practices alien to Malaysians. The most vulnerable to the incursion of Indonesian immigrants is the segment of the Malaysian populace which is economically the most fragile. Just as with fledging local construction outfits, it is these people who needs the greatest assistance and protection (Briggs

1996). Already complaints about competition for housing, jobs and over-stretched social infrastructure notably public education and medical care have been aired from time to time. With people movement from Indonesia to Malaysia taking on a self-sustaining pattern, the hardship befalling on these people would only exacerbate. It has to be pointed out that not all long-staying Indonesians in Malaysia have achieved economic success (Lim 1984). As happened in Europe (Mukherji 1985), Malaysia is witnessing some permanently settled Indonesian immigrants join the floating mass of the urban poor. Poverty among the foreign immigrants undermines the government's efforts to eradicate poverty and restructure society as a whole, an objective which has been central to the country's economic programme ever since the racial riot of May 1969 (Zainal Aznam Yusof 1994).

Indonesian site operatives becoming permanent settlers would bring about significant demographic changes. Some might argue that the harmony in multi-racial Malaysia is frail and can easily be threatened by major shifts in the racial composition. The political bearing of this scenario in pluralistic Malaysia would warrant serious consideration by policy-makers just as with the other issue highlighted above.

CONCLUSION

A confluence of factors has abetted towards the emergence of Indonesian entrepreneurs in the Malaysian con-

struction industry. The diffusion of construction work to Indonesian sub-contractors has not received media and academic attention it deserves. While they certainly add vitality and vibrancy to the industry, their existence in the long run can bear serious repercussions on the make-up of the country's small and medium-scale construction enterprises, in particular those run by *bumiputera*. Other ramifications-demographic, economic, and political in nature—as a consequence of the operation of Indonesian sub-contractors are equally serious not to be dismissed. Policy intervention is warranted to ensure that the national considerations are not compromised with the upward vertical mobility of Indonesians in the construction industry.

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TOWARDS AN ASEAN STRATEGY OF GLOBALIZATION

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In cooperation with the Konrad-Adenauer Stiftung, Germany, on 7-8 March 2001 CSIS organized a Workshop on "Developing Countries and Globalization". The Workshop examined four issues, namely: (1) opportunities offered by globalization; (2) globalization and domestic political processes; (3) globalization and the new international order; and, (4) ASEAN's responses to the challenges of globalization.

This publication does not serve as the proceedings of that workshop. Rather, it is confined to the presentations and

discussions during the final session of the workshop – the one that examined the need for and the elements of an ASEAN strategy of globalization.

The issues raised included among others:

- Development and freedom in a Southeast Asian community;
- The need for inspired leadership;
- The need for a "human agenda" for ASEAN;
- The need for joint advocacy;
- Complementary approaches to an ASEAN strategy towards globalization.

This publication is meant to stimulate further discussion on the problems of globalization and ASEAN's responses to the challenges of globalization.

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Indonesia's Forestry Sector and Trade Liberalization: A General Equilibrium Analysis

Tubagus Feridhanusetyawan and Yose Rizal Damuri

FOR quite a long time forestry sector has become a very significant contributor to Indonesia. Just before the Asian crisis, the forestry-related sectors amounted to more than 10% of the economy's production (World Bank 2001). These sectors also provide significant jobs to the whole society. Equally, wood-based products have been the second biggest non-oil export contributor for the last two decades. With the trade liberalization resulting in more open economy, the wood-based products will certainly become one of important export commodities in the future. How the trade liberalization progress would affect these sectors is therefore worth to examine.

By using a computable general equilibrium model, this study measures the impact of various schemes of trade liberalization on the economies in Asia Pacific region in general and on the performance of Indonesia's forestry-related sector in particular. The objective of the study is to measure the potential gains or losses, and

to predict the changing trade patterns and resource reallocation as a result of these liberalization schemes. The focus is on Indonesia's forestry-related sectors even though the model treats Indonesia as part of interdependent world economies. This study considers several liberalization scenarios, which are the combination of UR, APEC and AFTA, and compares the impact of each scenario on welfare, output, and resource allocation in the economy.

TRADE PERFORMANCE OF THE FORESTRY SECTOR

Indonesian export performance has indicated significant changes in composition since mid 1980s. Share of oil and gas export, which constituted more than 60% of total export in the 1970s, has declined significantly to no more than 25% in the end of 1990s. The share of manufacturing export increased drastically in 1980s and by 1992 had surpassed the share of oil export.

For the last two decades, wood and wood products have been the second biggest non-oil export commodities. Indonesian exports of these products have increased significantly-increasing from no more than US\$500 million in 1975 to approximately US\$7 billion in 1999. The export was only exceeded by the export of oil and gas as well as labor-intensive manufacturing products, which in 1999 amounted around US\$10 billion and US\$8.5 billion respectively.

The composition of Indonesian wood and wood products has changed over time. In early 1980's most of the exports were wood, lumber and cork, which accounted for about 50% in 1999. Based on this figure, it can be seen that wood-related products especially plywood increased significantly from 1985 to 1995; whereas exports of wood, lumber and cork as raw material declined significantly from 1979 to 1985. In later years in mid 1990s, the contribution of paper and furniture in this sector became more important. In fact, paper products and furniture can be classified as export sectors that have performed well during the crisis in late 1990's.

Besides its comparative advantages in the nature resource-based industries, the shift in Indonesian exports of wood products was also attributed to the policy implemented since early 1980s. The log export ban starting in 1980 has enabled wood-related products, especially plywood, to enjoy fast growth up to 1993. However, there is a decline in exports of plywood due to the lower world demand for the

products, especially from Japan and other Asian countries, as well as the decline of international prices (Feridhanusetyawan 2001).

Indonesia's imports of wood products, on the other hand, did not show any significant changes both in the magnitude and in the composition. Imports of wood products only accounted for about 1% of total Indonesian import value in 1975 and increased slightly over the time. The most significant imported items come from the paper and paper-board products, which counted more than 80% of imported wood products. In recent years, imports of raw material, such as wood, lumber and cork also increase quite significantly due to the increasing demand for particular imported-raw materials for manufacturing of furniture and other wood-related products.

MODELLING THE LIBERALIZATION

The impact of international trade liberalization on Indonesia's economy in this study is modeled using a global computable general equilibrium (CGE) model known as the Global Trade Analysis Project (GTAP). In addition to the model itself, GTAP relied on a set of database that was updated frequently. The latest available database for GTAP is version 4, which is based on the 1996 data. Nevertheless, for the purpose of this study, the authors decided to employ the previous version of the database, i.e., version 3, as it is considered more appropriate.

Table 1 presents the complete regional and sectoral aggregations from the original

Table 1

SECTORAL AND REGIONAL AGGREGATION

Sectoral Aggregation

Name	Commodity	Items Included
agr	Paddy rice	Paddy rice, grains, wheat, non-grain crops
lvs	Livestock	Wool, other livestock
for	Forestry	Forestry
fis	Fisheries	Fisheries
mng	Mining	Coal, oil, gas, other minerals
mnf	Manufacturing	Textiles, wearing apparels, leather, transport industries, machinery & equipment, other manufacturing
pfd	Processed food	Processed rice, meat products, milk products, other food products, beverages & tobacco
lum	Lumber	Lumber
ppp	Pulp and paper	Pulp paper etc.
pcm	Petroleum, Coal, and Chem.	Petroleum and coal, chemical rubbers and plastics, non-metallic minerals, primary ferrous metals, non-ferrous metals, fabricated metal products
ser	Services	Electricity, water and gas, construction, trade and transport, other services (private), other services (govt), ownership of dwellings.

Regional Aggregation

Name	Region	Countries Included
AUS	Australia	Australia
NZL	New Zealand	New Zealand
JPN	Japan	Japan
KOR	Korea	Korea
IDN	Indonesia	Indonesia
MYS	Malaysia	Malaysia
PHL	Philippines	Philippines
SGP	Singapore	Singapore
THA	Thailand	Thailand
CHN	China	China
HKG	Hong Kong	Hong Kong
CTP	China Taipei	China Taipei
CAN	Canada	Canada
USA	United States of America	United States of America
MEX	Mexico	Mexico
CHL	Chile	Chile
LAM	Latin America	Central America and Caribbean, Argentina, Brazil, Rest of South America
EU	European Union	European Union 12
ROW	Rest of the world	India, Rest of South Asia, Austria, Finland, Sweden, European Free Trade Area, Central European Associates, Former Soviet Union, Middle East, North Africa, Sub Saharan Africa and other countries.

30 regions and 37 commodities. Regional aggregation classified the world economy into 19 regions in order to give a detailed coverage of the Asia Pacific region, APEC member economies in particular. While most of the Asia Pacific economies are individually classified in the model, some economies in other regions, such as Europe and Latin America are classified into several large groups of countries. Meanwhile, the sectoral aggregation was intended to allow a more detailed observation of the forestry-related sectors. There are 11 sectors in total, which consist of 2 agricultural sectors (agriculture and livestock), 2 other primary sectors (fisheries and mining), 3 forestry-related sectors (forestry, lumber and pulp and paper), 3 manufacturing sectors (processed food, petroleum-metal-chemical, and other manufacturing), and 1 aggregated service sector.

To simulate trade liberalization, five different scenarios are introduced. Three scenarios are based on the trade liberalization agreement applied in the Asia Pacific region, namely Uruguay Round (WTO scheme), Asia Pacific Economic Co-operation (APEC), and ASEAN Free Trade Area (AFTA). The simulation is aimed at evaluating what will happen if the trade liberalization schemes are followed as agreed upon. The other two scenarios are based on the last two liberalization schemes expanded to include the liberalization of agricultural sectors.

The *first* scenario is based on the Uruguay Round (UR), a multilateral liberal-

ization agreement, that almost every economic region has participated in, except China and Chinese Taipei. There are some shocks applied in this scenario related to the UR agreement. The first one is the reductions of regions' import tariff in accordance with pre- and post-UR tariff available in the GTAP database. The second shock represents the reduction of agricultural export tax and subsidy by 36% in developed countries and 24% in developing countries. The last shock in the scenario applied for the domestic tax and subsidy, which are reduced by 20% and 13% for developed and developing countries respectively. The UR scenario will be a benchmark for other scenarios.

The *second* and the *third* scenario adopt trade liberalization scheme of ASEAN Free Trade Area (AFTA) in addition to the first UR scenario. AFTA is the agreement between South East Asian countries (ASEAN) to promote trade liberalization among the economies. Compared to UR that includes domestic distortions in the agreement, AFTA only deals with the reduction of import tariffs, which is faster than the reduction under Uruguay Round. In terms of coverage, since this agreement takes form as trade area, tariffs reduction only applied for intra ASEAN trade, while tariffs for imports originally from non-ASEAN countries are still taking place.

To model the liberalization under AFTA, in the second scenario, import tariffs between ASEAN members are reduced to 0% following the AFTA

scheme. Meanwhile, import tariffs for other countries outside ASEAN, export tax or subsidy and other domestic distortions are maintained on the level of Uruguay Round liberalization. Further liberalization process that may be possible to take under AFTA is represented in the third scenario by having the agricultural sector included in the liberalization scheme.

The two *last scenarios* try to simulate the liberalization under APEC agreement. APEC originated from the meeting of Asia Pacific leader in 1992 to discuss the progress of liberalization in the region. This meeting became a milestone of the forum's progress, since the meeting provided a vision of free trade and investment in the region. In the latest APEC leaders meeting in Brunei Darussalam in November 2000, the commitment to have free and open trade and investment in Asia Pacific was reaffirmed. Special attention was given to efforts in managing globalization, providing more stable international financial environment, and strengthening the multilateral trading system.

These scenarios would allow a measurement of the contribution of APEC to the world economies. This study models the liberalization scheme by having the reduction of import tariffs according to the APEC schedule, namely 0% for developed countries and 5% for the developing one. In addition to the original APEC scheme, the last scenario offers the evaluation of having agricultural liberalization into the scheme.

THE RESULTS

Welfare

The impact of trade liberalization under various scenarios of welfare, measured as the value of equivalent variation, is presented in Table 2 below. The effects are expressed in US\$ billion and should be interpreted as welfare change (increase or decrease) compared with whose if otherwise (no shock) would have been. The results in general show that a more liberal trade regime lead to bigger welfare gains. Broader country participation, more progressive tariff reductions, and wider sectoral coverage would enhance the welfare benefit of trade liberalization.

The first column in the table shows the impact of Hicks neutral technological shocks on welfare. The result provides some indication of a baseline scenario, which assumes a regime that has no trade liberalization commitment in place. Without any liberalization commitment, a one percent increase in itself generally leads to welfare increases at about one to one and a half percent in terms of an economy's GDP.

With the technological shock in place, the implementation of the UR would lead to larger welfare gain for most economies. Even China and Chinese Taipei, which have not participated in the Round, experience substantial welfare gains from the UR. The welfare gain for Indonesia as a result of participating in the UR is estimated at about US\$4.15 billion. For the five ASEAN countries

Table 2

THE IMPACT OF TRADE LIBERALIZATION ON WELFARE (Equivalent Variation)

Region	Tech.Shock (Base Scenario)	Uruguay Round (Scenario 1)	UR-AFTA Excluding Agriculture (Scenario 2)	UR-AFTA Including Agriculture (Scenario 3)	UR-APEC Excluding Agriculture (Scenario 4)	UR-APEC Including Agriculture (Scenario 5)	
	US\$ Billion	US\$ Billion	US\$ Billion	US\$ Billion	US\$ Billion	US\$ Billion	% of 1995 GDP*
ASEAN							
Indonesia	2.29	4.15	4.20	4.26	4.95	4.94	2.48
Malaysia	1.33	3.41	3.50	3.38	3.44	3.69	3.85
Philippines	1.04	1.75	1.78	1.78	1.86	2.09	2.97
Singapore	1.31	4.93	5.09	5.11	5.04	5.17	7.67
Thailand	2.18	1.00	0.89	0.92	1.62	1.49	0.90
ASEAN Total	8.14	15.23	15.47	15.45	16.91	17.39	2.90
APEC Non-ASEAN							
Australia	5.42	7.91	7.91	7.90	11.59	10.75	3.10
Canada	10.74	6.19	6.19	6.19	6.22	6.43	1.12
Chile	0.80	0.81	0.81	0.81	1.03	1.03	1.62
China	7.80	16.48	16.47	16.46	11.67	12.68	1.78
China Taipei	4.78	9.72	9.70	9.70	12.18	15.88	5.75
Hong Kong	2.01	4.51	4.50	4.50	6.54	6.46	6.38
Japan	68.02	169.48	169.38	169.37	169.89	175.76	3.45
Korea	7.33	16.95	16.93	16.93	18.67	21.37	4.74
Mexico	5.64	4.09	4.09	4.09	5.54	5.53	1.97
New Zealand	0.87	2.81	2.81	2.81	2.87	2.76	4.71
USA	108.35	95.10	95.10	95.08	95.75	97.10	1.36
APEC Non-ASEAN Total	221.76	334.05	333.89	333.85	341.94	355.76	2.36
Non-APEC							
EU	136.36	145.43	145.41	145.39	148.98	149.19	3.85
Rest of Latin America	17.22	20.07	20.07	20.07	20.09	19.89	1.52
Rest of the world	58.77	50.00	49.98	50.00	50.99	51.25	0.18
Non-APEC Total	212.35	215.50	215.46	215.46	220.06	220.33	0.66
World Total	442.25	564.79	564.82	564.77	578.91	593.47	1.21

*The 1995 GDP is based on the data in the GTAP 4 Database.

in the study, the total gain is about US\$15.23 billion. These welfare gains from participating in the WTO come mostly from the increase in efficiency as a result of greater market access and reduced distortions in the economy, mainly in terms of reductions of border tariffs in all sectors, and other domestic

distortions in the agricultural sectors as required by the UR scheme.

Trade liberalization through AFTA, however, does not contribute much to the welfare gains over and above what has been achieved by the UR, even for the ASEAN member economies. The table

above shows that a combination of the UR and AFTA schemes would only give ASEAN member economies an additional welfare gain of about US\$250 million on top of the gains from the UR. This is small compared with the additional gain of about US\$7.1 billion from implementing the UR in addition to the pure technological shock. Indonesia would get additional benefit of US\$50 million from the implementation of AFTA in addition to the UR. The reason for the small welfare impact of the AFTA is clear. AFTA is creating a trading bloc for ASEAN, and since ASEAN member economies trade more with non-ASEAN members, the negative impact of trade diversion dominates the positive effect of trade creation.

The additional benefit from implementing APEC in addition to the UR is much larger than that of AFTA. With one percent technological shock, the

implementation of the UR and APEC trade liberalization would increase Indonesia's welfare by US\$4.95 billion, or more than 2.5% of its GDP in 1995, compared with otherwise would have been. The additional welfare gain for the five ASEAN member economies would be around US\$16.91 billion, or around 2.9% of their 1995 GDP. For the non-ASEAN APEC member economies, the total welfare gain would be around US\$355.76 billion or more than 2.3% of their total 1995 GDP. The impact of the UR-APEC liberalization for non-APEC member economies is also positive but smaller, at about 1.2% of their total GDP.

Domestic Production

Trade liberalization would lead to resource reallocation -represented by changes in the patterns of production across sectors- that will significantly increase the

Table 3

INDONESIA: THE IMPACT OF LIBERALIZATION ON CHANGES IN OUTPUT

Sectors	Tech.Shock (Base Scenario)	Uruguay Round (Scenario 1)	UR-AFTA Excluding Agriculture (Scenario 2)	UR-AFTA Including Agriculture (Scenario 3)	UR-APEC Excluding Agriculture (Scenario 4)	UR-APEC Including Agriculture (Scenario 5)	US\$ Million
	%	%	%	%	%	%	
agr	0.5	-1.2	-1.2	-0.8	-1.1	-1.6	-315.8
lvs	0.6	1.5	1.5	1.7	1.7	1.6	51.7
for	-0.5	5.4	5.2	5.1	5.0	5.7	144.1
fis	1.6	-0.8	2.3	2.2	-0.4	-0.1	-1.6
mng	-1.1	-14.6	-14.9	-15.0	-13.3	-13.1	-1010.1
mnf	2.4	20.8	20.7	20.4	17.2	17.4	5789.8
pfd	0.9	0.3	0.4	0.1	0.7	0.2	48.9
lum	0.0	8.5	8.2	8.0	7.4	8.4	213.4
ppp	1.0	3.6	3.5	3.4	4.6	4.9	140.9
pcm	0.8	-0.5	-0.6	-0.8	0.3	0.4	96.8
ser	1.6	2.0	2.0	2.0	2.2	2.2	2130.5

output of the Indonesian textile and garment industries. Table 3 presents the impact of trade liberalization on the changes in output in Indonesia, expressed by a percent change compared with otherwise would have been. In all liberalization scenarios, manufacture sector is the most benefited sector by increasing the output around 17% to 20% or around US\$6 billion. This significant gain mostly comes from the increase of textile and garment output in the manufacture sector.

The output of forestry-related sector has also increased moderately. Forestry sector itself expands the domestic production by 5.7% at most under UR and APEC liberalization, which is around US\$144 million. The production of higher end forestry-related sector, such as lumber and pulp and paper, increases significantly as a result of trade liberalization.

The changing patterns of production are associated with resource reallocations in the economy. At this point, the study shows that in general labor and capital move to manufacture sector, which expands the production. Factor inputs are assumed to be identical in nature across sectors, and the changes in factor input demand represent the reallocation of resources within the economy. In the agricultural sectors, the use of land tends to shift from agriculture to livestock. It is interesting to note that with the trade being liberalized, resources are most likely to move out of the mining sector. Forestry-related sectors absorb factor inputs significantly. Labor in forestry sector increased by 4.27%, while in

lumber sector, the increase is even higher, more than 6.5%. Trade liberalization also increases the use of capital in the forestry-related sectors. Meanwhile, in terms of factor prices, wages and rent of capital are expected to increase by 7.7% and 8.1% respectively.

In addition to the effects of resource reallocation, the change of domestic output can also be seen as the impacts of changes in demand for a particular commodity. The source of the changes can be categorized into three main parts of demand decomposition. *First* part is related to the changes in domestic demand for a particular commodity. The implementation of an economic policy, such as trade liberalization, has some impacts on the price of commodities, and thereby changing the demand. This effect depends on the own and cross price elasticity of the corresponding commodity. The *second* effect stems from the assumptions of the model that domestically produced commodities can be substituted at some degree by similar imported commodities. Any increase in the price of the goods would make the consumers diversified away towards imported commodities; whereas price reductions make domestic goods preferable than the imported one. The *third* impact arises from the change in export demand of particular commodity in the world market.

Table 4 shows how the changes in the total output can be broken into three parts of demand following the UR and APEC trade liberalization (scenario 5).

Table 4

SOURCES OF CHANGES ON INDUSTRIAL OUTPUT

Sectors	Domestic Demand (%)	Import Substitution (%)	Export Demand (%)	Domestic Output Change (%)
agr	-35.85	373.58	-237.11	-1.59
lvs	63.35	0.62	36.65	1.61
for	104.90	-7.88	2.98	5.71
fis	-3850.00	800.00	3150.00	-0.06
mng	9.62	3.36	86.95	-13.10
mnf	26.66	-69.90	143.23	17.44
pfd	885.71	-609.52	-176.19	0.21
lum	13.84	-16.35	102.51	8.38
ppp	50.31	-41.07	90.76	4.87
pcm	681.08	-916.22	335.14	0.37
ser	126.61	-11.93	-14.68	2.18

The first three columns present the contribution of the three parts of demand to the changes in domestic output, while the percentage changes in domestic output itself is presented in the last column of the table.

The decomposition of demand shows that the change in domestic output is mostly attributed to the domestic demand change. About 104% of the total change in output of forestry sector comes from domestic demand change, while only 2.19% goes to the export market. As with other forestry related sectors, the change in output mostly arises from the expansion of export demand for the commodities. The increased exports of lumber and pulp and paper contribute 102% and 91% respectively to the output change in particular sectors.

The results indicate that there is a structural transformation in the forestry-related sectors. With the implementation of trade liberalization, the export of Indonesian higher end forestry sectors is

likely to increase, which will in turn also expand the sectors output significantly. This expansion moves the lower end forestry products towards domestic demand to meet the increase of intermediate input requirement of higher end sectors.

Patterns of Trade

The impact of trade liberalization on the changing patterns of exports and imports are larger in terms of magnitude. Table 5 shows that with trade liberalization, Indonesia's exports are expected to increase substantially in all sectors, especially agriculture, manufacture and forestry-related commodities. In the agricultural sectors, even though the changes in production are negative, exports increase significantly. Indonesia's agricultural exports are expected to increase by more than 37% with the implementation of various schemes of trade liberalization. When agriculture is included in the liberalization scheme, the percentage increases in Indonesia's agricultural exports tend

to be larger. For example, Indonesia is expected to be a major agriculture producer for ASEAN economies when agriculture is included in AFTA scheme. To a lesser extent, the same trend takes place in livestock products. Indonesia has not been a major agriculture exporter in the world, but because AFTA is creating a trade-bloc among ASEAN members while maintaining tariffs on import from non-ASEAN, Indonesia's products suddenly become cheaper than the products produced by non-ASEAN members. This is one example of trade diversion effect of the AFTA. While the increase in agricultural export is large in terms of percentage, the nominal value is expected to be small.

Forestry products, on the other hand, show a different pattern of changes in exports. Under AFTA and UR trade liberalization scheme, the export of forestry

sector has increased slightly, despite significant expansion of the domestic product. As mentioned earlier, most of the output expansion in forestry sector comes from the increase of domestic demand, especially as intermediate input of higher end forestry-related sectors. However, under APEC liberalization, the export of forestry products increase significantly. This related to participation of China and China Taipei in the liberalization. By liberalizing its market, China -being one of the main destinations of Indonesian forestry products- contributes a lot in the increase of the export.

An increase in the export of other forestry-related commodities is also taking place. AFTA liberalization, once again, tends to create trade diversion among ASEAN countries for higher end forestry products. The increase of pulp and paper exports under UR and AFTA liberal-

Table 5

INDONESIA: THE IMPACT OF TRADE LIBERALIZATION ON CHANGES IN EXPORTS

Sectors	Tech.Shock (Base Scenario)	Uruguay Round (Scenario 1)	UR-AFTA Excluding Agriculture (Scenario 2)	UR-AFTA Including Agriculture (Scenario 3)	UR-APEC Excluding Agriculture (Scenario 4)	UR-APEC Including Agriculture (Scenario 5)	US\$* Million
	%	%	%	%	%	%	
agr	0.9	46.73	46.5	55.0	45.36	37.08	459.5
lvs	2.0	27.02	26.8	42.1	25.19	22.4	11.6
for	-0.3	0.54	0.3	0.2	7.82	11.01	1.8
fis	0.7	-7.37	2.6	2.4	-7.63	-6.42	-1.0
mng	-1.4	-18.47	-18.9	-19.0	-18.27	-17.95	-244.1
mnf	3.2	92.4	92.2	91.6	74.51	74.98	10477.0
pfd	1.1	1.15	1.6	-0.5	-2.86	-5.6	-51.6
lum	-0.3	13.53	13.2	12.9	11.73	13.07	8.9
ppp	1.4	28.35	28.2	28.0	25.26	26.38	164.1
pcm	0.3	13.53	13.2	12.8	7.03	7.15	539.9
ser	1.5	-2.57	-2.83	-3.05	-3.07	-2.62	-145.0

*Based on exports value from the original data of the GTAP 3 database.

ization, for example, is higher than under APEC liberalization, which equally opens ASEAN market to producers from the countries other than ASEAN members.

Similar trends are expected to occur in the changing patterns of Indonesian imports, namely that imports of basically all commodities are most likely to increase with the trade liberalization being implemented, compared with otherwise would have been. Imports of agriculture, fishery, and forestry related products are expected to increase by more than 50%. The value of net changes in exports, or the changes in export minus the changes in import, varies depending on the commodities.

Unsurprisingly, import of all forestry-related sectors increases a lot due to higher domestic demand. As shown in the Table 4 above, trade liberalization is expected to increase domestic demand for forestry-related products. The expansion of lumber and pulp and paper production leads to higher demand of forestry products that cannot be fulfilled from domestic production. The increased domestic demands for lumber and pulp and paper products are also expected to increase the imports, since larger parts of domestic output expansion would go to the export market.

CONCLUSION

The result of this study has indicated that more progressive and wider coverage of trade liberalization would generally lead to bigger welfare gains. The

benefits of trade liberalization for Indonesia are reflected in the form of the increases in welfare, exports and imports, compared with that of otherwise would be without trade liberalization. Among the existing liberalization commitments in the Asia-Pacific region, the implementation of the two major commitments, namely the UR and APEC, would greatly benefit Indonesia. AFTA, on the other hand, is expected to contribute little to additional welfare gain. This confirms the argument that as a trading bloc, AFTA would lead to little additional benefit for ASEAN member economies because they are trading more with non-ASEAN members.

Forestry-related sectors would also benefit largely from the trade liberalization. A more open trade regime would increase the production of forestry-related commodities by increasing the demand and more effective economic resource allocation to the sectors. Most of the increase in demand can be attributed to the raise of export of these products that in turn also change the trade pattern and composition towards the higher end forestry products. While the increase in demand for forestry-related products offers benefits to the economy, the danger on excessive exploitation of forestry resources must also be taken into consideration.

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ASEAN: The Challenge of Integration, Cohesion, and Maritime Cooperation

Sidharto Suryodipuro

INTRODUCTION

ASEAN is a regional organization founded to nurture economic and functional cooperation among its members.¹ It is also an issue-driven organization, which at different times of its history allows different political and strategic issues to become the rallying point of its leaders and foreign ministers. The first decade of its existence was marked by the maturing of ASEAN solidarity *vis-a-vis* the advent of communism in Southeast Asia. In the second decade, the defining issue was the occupation of Cambodia by Vietnam and ASEAN's efforts to reverse it. The third decade was signified by ASEAN's enthusiasm for a new, post-Cold War international order and

its efforts to promote a regional order based on its values and principles. The major theme of the fourth decade is regional integration and cohesion.

Regional integration has been ASEAN's main preoccupation since the Singapore Summit (2000) agreed on an Initiative for ASEAN Integration (IAI). The Initiative seeks to bring the newer members of ASEAN (Cambodia, Laos, Myanmar and Vietnam) to the plane of the older members. Similarly, cohesion is aimed at bridging the differing views between outward and inward orientations of the organization, and between national and regional interests.

Integration and cohesion, are necessary to bridge ASEAN's geographic nature,

¹The ASEAN Declaration (Bangkok Declaration) of 8 August 1967 declared the Association's purposes as, among others, "(1) To accelerate the economic growth, social progress and cultural development in the region ...; (2) To promote regional peace and stability through abiding

respect for justice and the rule of law in the relationship among countries of the region and adherence to the principles of the United Nations Charter; (3) To promote active collaboration and mutual assistance on matters of common interest in the economic, social, cultural, technical, scientific and administrative fields; ..."

in which some are continental and the others archipelagic.² It becomes further complicated as the organization, in this new era of international and regional relations, has to address a number of complex challenges. Globalization is likely to undermine the association's norms and straining its economic well-being. Transnational crimes, facilitated by globalization, are threatening ASEAN's security and economy. Moreover, a rapidly rising China is challenging ASEAN's economic competitiveness, displaying a creeping assertiveness in the South China Sea, and establishing closer relations with the Mekong region before it has been integrated more closely within ASEAN.

How should ASEAN enhance its internal workings while dealing with such challenges? One answer is to complement ASEAN's instrument of regional cooperation and integration -the Zone of Peace, Freedom and Neutrality (ZOPFAN) and the ASEAN Free Trade Area (AFTA)-with an integrative approach that takes into account ASEAN's maritime nature. All ASEAN members, with the exception of Laos, a landlocked country, are geographically linked by the sea.

This article attempts to present a fresh perspective on regional cooperation and to offer a bird's eye view through

which we may sketch a complementing theme to move ASEAN forward. It is, thus, to a degree, also normative.

REGIONAL COOPERATION

While a "region" may be measured on the basis of the criteria of proximity and homogeneity, "regionalism" refers to proximity or contiguity that delineates and identifies a region in its spatial context (as distinct from other regions). It also implies the existence of shared homogeneity or similarity. There may be social homogeneity (e.g., the Arabs in the Middle East), economic homogeneity (Europe), political homogeneity (Europe, North Atlantic), and external homogeneity (voting block at UNGA). Homogeneity may reinforce or revise ideas about region based upon proximity.³ Regional integration implies, in this context, enhanced homogeneity; and, as a region integrates more closely, the more advance also its sense of community.

In a continental setting, proximity is direct and relatively unobstructed and homogeneity is stronger due to closer and more frequent interaction. The movement of people and goods are more intensive because of the solid nature of the geography. State boundaries are easier to cross, but also easier to control. Amity and enmity between states and societies may be more intensive because of it.

²Amitav Acharya, in *The Quest for Identity: International Relations of Southeast Asia* (Singapore: Oxford University Press, 2000), argues that "[f]oremost among the sources of diversity in Southeast Asia is the division between mainland and maritime/archipelagic segments."

³Graham Evans and Jeffrey Newnham, *The Penguin Dictionary of International Relations* (Middlesex: Penguin Books, 1998), 472-473.

In contrast, archipelagic states are relatively insulated from external interaction. Therefore, homogeneity may be limited as water hampers closer relationship. Incontiguous proximity (the ASEAN region is, after all, larger than that of the European Union's, encompassing large bodies of water) may be linked through infrastructural development and heightened political, economic and social homogeneity.

A regional organization is formed "when nations situated in a geographical area or sharing common concerns can co-operate with one another through a limited-membership organization" to meet military, political, economic and functional problems.⁴ In many cases, the homogeneity of a regional organization requires nurturing because it cannot be taken for granted and is needed to help enhance the capacity to deal with extra-regional challenges. A regional organization could produce greater homogeneity that is essential to regional identity through the "diffusion of norms, policies and practices," which include the promotion of common ideologies and political values, and the adoption of convergent development policies.⁵

Historically, ASEAN was created to maintain and enhance regional stability, prosperity and resilience, by strengthening cooperation among resident countries

in the face of external pressures on its strategic location. It also had established various types of mechanism. Yet, it has basically three formal binding agreements that govern its internal workings and external relations: (1) the Treaty of Amity and Cooperation in Southeast Asia (TAC); (2) the Treaty of Southeast Asia Nuclear Weapons Free Zone (SEANWFZ); and, (3) ASEAN Free Trade Area (AFTA).⁶ The first two are the pillars of ZOPFAN, a concept meant to strengthen the region's resilience against foreign intervention and the interaction of the four major powers (the US, the Soviet Union, Japan and China) from the North.⁷

The Declaration of ZOPFAN expressed the determination of regional countries "to exert initially necessary efforts to secure the recognition of, and respect for, South-East Asia as a Zone of Peace, Freedom and Neutrality, free from any form or manner of interference by outside Powers." They underlined the need to "make concerted efforts to broaden the areas of cooperation which would contribute to their strength, solidarity and closer relationship."⁸

⁶The categorization of "formal undertaking" or "formal binding agreements" is provided by the Secretary-General of ASEAN. See Rodolfo C. Severino, Jr, *ASEAN Rises to the Challenge: A Selection of Speeches* (Jakarta: ASEAN Secretariat, 1999), 92-93.

⁷This interpretation is based on the lecture given by former Foreign Minister Ali Alatas to the joint class of the Senior- and Mid-level Diplomatic Training Course on 27 November 2001.

⁸Operative paragraph 2 of the ZOPFAN Declaration.

⁴Lawrence Ziring; Jack C. Plano and Roy Olton, *International Relations: A Political Dictionary* (California: ABC-CLIO, Inc., 1995), 328.

⁵Acharya, 10.

It was signed by the ASEAN Foreign Ministers in Kuala Lumpur in 1971, and subsequently adopted by the 1st ASEAN Summit in Bali in 1976. The concept originated as a Malaysian proposal to create a neutral ASEAN guaranteed by the major powers, but did not enjoy consensus because of Indonesia's strong opposition to giving security rights to outside powers. It also ran counter to the interest of other members, such as Singapore that preferred to maintain its own security relations with the UK and later the US. The Kuala Lumpur meeting instead endorsed an Indonesian-inspired formula that became known as ZOPFAN.⁹

For Indonesia, ZOPFAN was seen to be supportive of its efforts to achieve recognition of its archipelagic status and a useful political instrument to address the potential threat of foreign naval passage through its surrounding waters.¹⁰ It is interesting to note, however, that Indonesia seemed to have not put in much efforts into developing regional maritime cooperation.

The TAC, also adopted by the 1st summit, is based on the sanctity of sovereignty. It contains principles for peaceful relations among countries in the region and a mechanism for the peace-

ful settlement of dispute. ASEAN is now seeking for the TAC to be respected by the major powers in their conduct in the region.

SEANWFZ was signed by all ten Southeast Asian countries at the 5th summit in 1995. Its main feature, among others things, is the state parties' undertaking not to have, keep, transport, test or use nuclear weapons within the Zone. Efforts now are to have it respected by the Nuclear Weapon States, but which have stumbled on issues pertaining to area of coverage, maritime transit and port visits. The problem underlines the strategic value, and therefore vulnerability, of Southeast Asian waters to the major powers.

The third agreement relates to AFTA, which is an economic instrument to enhance the region's capacity for trade. Initiated by the 1992 Summit and went into effect this year, it is supported by other agreements and instruments. Beyond trade, economic integration is complemented with investment liberalization. A myriad of regional infrastructure and other projects have also been developed to support the free flow of peoples and goods.

The 1992 summit paved the way for sub-regional economic cooperation schemes to accelerate economic growth, i.e., BIMP-EAGA (Brunei-Indonesia-Malaysia-Philippines East ASEAN Growth Area), the IMT-GT (Indonesia-Malaysia-Thailand Growth Triangle), and the IMS-GT (Indonesia-Malaysia-Singapore Growth Triangle).

⁹Michael Leifer, *Singapore's Foreign Policy: Coping with Vulnerability* (New York: Routledge, 2000), 78. Also, by the same author, *Dictionary of the Modern Politics of South-East Asia* (New York: Routledge, 1995), 260.

¹⁰Dino P. Djalal, *The Geopolitics of Indonesia's Maritime Territorial Policy* (Jakarta: CSIS, 1996), 124-126.

THE CHALLENGES OF THE NEW ERA

ASEAN has been facing complex internal and external problems. Internally, the main challenge is restoring ASEAN's cohesiveness, which had weakened in the latter half of the 1990s.

In 1995-1997, ASEAN expanded to include, in succession, Vietnam, Laos and Myanmar, and Cambodia (the "CLMV countries"). It fulfilled the aspiration of the Bangkok Declaration (1967) to have all Southeast Asian countries under ASEAN's regional embrace, and will undoubtedly strengthen the region in the long run. But it has also strained ASEAN's cohesiveness, for the organization is now divided between relatively pluralistic democracies with market economies (the six older members) and centralized political and economic systems (the four newer members). It also has to cope with a dualistic geography: Myanmar, Thailand, Laos, Cambodia and Vietnam are mainly continental countries (though mostly also maritime); while Singapore, Indonesia, Brunei, the Philippines and (to an extent) Malaysia are basically archipelagic countries.

Internal and external challenges are ultimately intertwined because of the region's strategic location and the embedded interest of the major powers. The first external challenge is "globalization" that may be defined as the inexorable integration of markets, nation-states and technologies to a degree never witnessed before - in a way that

enables individuals, corporations and nation-states to reach around the world farther, faster, deeper and cheaper than ever before, and in a way that enables the world to reach into the individuals, corporations and nation-states farther, faster, deeper, cheaper than ever before."¹¹

It also implies that the countries and societies that benefited most from globalization -and have come out stronger because of it- are dictating those that have failed to keep up or even marginalized by the process. Among the consequences are tougher economic competition and domination and, more subtly, the spreading of social values under the guise of universalism. Liberal values promoted by the strong, for example, have had the effect of weakening the weak by removing without replacing political, economic and social structures.

The other challenge is the rise of transnational organized crimes, which are caused by factors from within and outside the region. They include piracy, human trafficking, weapon and drug smuggling, and terrorism. Their flourishing have been facilitated by the waters of Southeast Asia that lack regionally-coordinated supervision and patrolling.

Piracy continues to ply the ships passing through the region's waters. It has been reported that half of the 460 pirate attacks worldwide in 2000 occurred in Indonesian waters and the

¹¹Thomas L. Friedman, *The Lexus and the Olive Tree* (Canada: Anchor books, 2000), 9.

narrow Strait of Malacca, ranging "from petty theft by unemployed fishermen and opportunistic criminals -the great majority of incidents- to highly organized, gang-operated hijacking."¹² The former is, to a large extent, caused by economic hardship experienced by coastal people since the 1997 crisis.¹³ The latter is supported by multinational syndicates with networks in Indonesia, Singapore, China and Hong Kong.¹⁴

The smuggling of people, weapons and drugs currently has reached the alarming level because of the difficulties faced by the security apparatus. It has become worse since the 1997 crisis, particularly in Indonesia where control of its territorial waters is the weakest. This weakness has benefited arms (and armed) movements between areas of tension on the Malacca Peninsula, Aceh, Cambodia, southern Philippines and the Moluccas.

Terrorism is another accounting challenge and it is not new to the region. But it has grown into a serious threat to national security as well as to the security and stability of the region. A potential new threat facing Southeast Asia is maritime terrorism. The region holds the dangerous mix of factors that can provide for terrorist acts: active

terrorist groups operating in the area, dense maritime traffic, vulnerable sea lanes and a reliance by the region on shipping for its trade and commerce, especially in the transportation of petroleum products. In addition, there appears to be exchanges of information among terrorist organizations; a case in point is the similar tactics employed in the attack against the USS Cole at a Yemeni port in October 2000 and the suicide attacks conducted by the naval wing of the Tamil Tigers (Sea Tigers) against an oil tanker off Sri Lanka's northern coast in October 2001.¹⁵

The US has reacted to this situation and its war against terrorism by deploying one of its warships to patrol the Malacca Strait.¹⁶ The US has also established naval cooperation with India to patrol the strait, while Japan and India have also established similar arrangement. In addition, Japan has established closer cooperation with regional countries for maritime security.¹⁷

¹⁵"South-east Asian sea lanes vulnerable to terrorist attacks", *The Straits Times*, 23 November 2001. Meanwhile, the Commander of the Indonesian Armed Forces had stated that sea is a medium for terrorism and called on the navy to increase its vigilance; "Panglima TNI: Laut Merupakan Media Terorisme", *Kompas*, 6 Desember 2001.

¹⁶"U.S. Navy patrolling RI sea lane," *The Jakarta Post*, 18 December 2001.

¹⁷An elaborative background of the Japanese initiative is provided in an article by Nayan Chanda in "Foot in the Water", *Far Eastern Economic Review*, 9 March 2000. See also Regional Briefing on Japan, *Far Eastern Economic Review*, 11 May 2000.

¹²"Piracy in Asia: Dangerous Waters," *The Economist*, 21 July 2001.

¹³Leo Dumais (Admiral), Paper presented at Temu Wicara Kerjasama ASEAN dalam Menanggulangi Kejahatan Lintas Negara, 11 July 2001.

¹⁴"Dead men tell no tales," *The Economist*, 16 December 1999.

ASEAN, finally, is faced with the rapid rise of China as a dominant power in East Asia and the Pacific. In the economic sphere, there has been intensified competition for export markets and foreign investments.¹⁸

China's rise is also attracting the Mekong region closer to southern China, signified by infrastructural projects, such as the Singapore-Kunming railway, the Kunming-Bangkok highway and the dredging and navigating of the Mekong River (the river originates in central-western China and flows through to Myanmar, Laos, Thailand, Cambodia and Vietnam). Proximity is thus being magnified.

Another consequence is in the South China Sea, which harbours the overlapping claims of Malaysia, Vietnam, Brunei, the Philippines, and China including Taiwan. ASEAN has always been concerned with China's intention in the South China Sea, particularly after the Cold War.¹⁹ Tension has declined as the two sides began to negotiate a code of conduct for the South China Sea in 2000.

¹⁸Closer economic relations is also evident. See, for example, Mary Kwang, "Why China speeded up plans for FTA with ASEAN", *The Straits Times*, 13 November 2001. The idea of ASEAN-China free trade area was initially aired by PM Zhu Rongji at the ASEAN+China Summit in Singapore in 2000.

¹⁹ASEAN had twice declared its common position in response to Chinese action in the South China Sea; namely, the 1992 Declaration and the 1995 Statement.

The South China Sea has also turned into an increasingly serious issue in Chinese-American relations. The American Quadrennial Defense Review Report (QDR), a four-year defence strategy review mandated by the US Congress, argued for the reorientation of the US' posture towards Asia, to focus on "the challenging area of East Asian littoral which stretches from South of Japan through Australia and into the Bay of Bengal."²⁰ In this regard, the US has indicated that it may seek greater access to Australia's military bases and other countries in the region.²¹

US-China relations have improved markedly with China backing America's global war against terrorism. This, however, does not negate the nature of their relationship -between a *status quo* power and an emerging one- nor secure a strong basis for long-term friendly relations.

STATUS OF INTEGRATION

A look into ASEAN's economic integration, infrastructure, as well as po-

²⁰Quadrennial Defense Review Report (US Department of Defense, September 2001), 2; 4. See also "Pentagon review of defense strategy," *The Straits Times*, 3 October 2001.

²¹"US raises possibility of more military bases in Australia," *Sydney Morning Herald*, 21 June 2001. It has also been reported that the US planned to transfer some combat weaponry from Europe to Asia; see Lee Siew Hua, "US moving weapons to Asia in response to rising China," *The Straits Times*, 1 September 2001.

litical and security cooperation serves to measure the adequacy of regional binding instruments in addressing ASEAN's challenges.

Economic integration refers to trade and investment liberalization. Intra-ASEAN trade has increased from an estimated 12-15% between 1967 and the early 1970s, to 20% in 1993 and 25% 1996.²² In absolute terms, the figures are US\$43,3 billion in 1993 and \$84,4 billion in 1997.²³ The financial crisis of 1997 has encouraged ASEAN to increase its intra-trade relations, for example through the use of regional currencies and counter-trade (barter). ASEAN has also decided to open the manufacturing sectors to investments from within the region and to extend national treatment to such investments, to create the ASEAN Investment Area (AIA). Financial cooperation is another component of integration in which ASEAN has engaged in a surveillance/early warning process. It also includes trade facilitation measures in customs, harmonizing product standards and facilitating goods in transit.

The development of transportation infrastructure between the members is an important aspect of regional integration because it facilitates direct exchanges of peoples and goods. The organization has developed plans for transport facilities consisting of a network of high-

ways, railways, seaports and airports, inland waterways, and civil aviation links.²⁴ It is noteworthy that physical integration is not a mere function of economic integration, as it also nurtures a sense of community.

Specifically on maritime transport, ASEAN has established a Maritime Transport Working Group (MTWG) to discuss more intensively various issues relating to ASEAN maritime cooperation. Indonesia was appointed as the first chair country for 1999-2001. The MTWG has discussed the enhancement of sea and river transportation links for the whole of ASEAN, and the development of shipping links between eastern and western parts of ASEAN with the Singapore-Kunming Rail Link Project.²⁵ It also focuses on ASEAN shipping and ports. ASEAN is also conducting a study with the assistance of the Japanese government to formulate the ASEAN Mari-

²⁴The Ha Noi Plan of Action (1998-2004) outlines ASEAN's intention in the field of transportation, among others, to: "develop the Trans-ASEAN transportation network by the year 2000 as the trunkline or main corridor for the movement of goods and people in ASEAN, consisting of major road (interstate highway) and railway networks, principal ports and sea lanes for maritime traffic, inland waterway transport and major civil aviation links; ... [to] develop a Maritime/Shipping Policy for ASEAN to cover, among others, transshipment, enhancing the competitiveness of ASEAN ports, further liberalisation of maritime transport services, and the integration of maritime transport in the intermodal and logistics chain ..."

²⁵Report of the Fourth ASEAN Maritime Transport Working Group Meeting, 6-8 August 2001, Bali, para 10-11.

²²"ASEAN: An Overview," the ASEAN Secretariat website (<http://www.aseansec.org>).

²³Severino, 180.

time Transport Policy and Development Framework Plan 2002-2007.

Other fields of regional infrastructure include the trans-boundary gas pipelines, the ASEAN Power Grid, and telecommunications networks. A manifestation of the trans-boundary gas pipelines is the West Natuna Gas Agreement that connected Singapore to the West Natuna Field (Indonesia) 650 km away. This project is part for the eventual flow of Indonesian gas into the ASEAN pipeline grid that will connect the mainly maritime areas of Indonesia, Singapore, Malaysia and Thailand.²⁶

Economic and physical integrations are manifested significantly in sub-regional economic cooperation schemes. Developed in the early 1990s, there are now calls for more innovative strategies and mechanisms of these schemes to deal with changing political and economic environments and to make them more effective.²⁷ The issue was acknowledged at the summit level, when ASEAN's leaders reaffirmed the importance of the sub-regions for ASEAN development and integration, and also recognized the

linkages between growth and security to improve confidence and the business climate.²⁸ The BIMP-EAGA and the Mekong Basin have received greatest attention.

As to ASEAN's political and security cooperation, the focus currently is on the fight against transnational organized crimes, particularly terrorism. At the 2001 Summit, ASEAN's Leaders committed "to counter, prevent and suppress all forms of terrorist acts in accordance with the Charter of the United Nations and other international law."²⁹ Nevertheless, the perception of threat is diverse, as terrorism is not commonly experienced by all members.

As regional efforts to combat transnational organized crimes are being strengthened, inter-state relations will continue to be the essential aspect of regional countries' foreign policy.³⁰ The potential flashpoint of Southeast Asia is the South China Sea. ASEAN's basic

²⁶Paragraph 18 of the Summit Chairman's Press Statement on 5 November 2001.

²⁹2001 ASEAN Declaration on Joint Action to Counter Terrorism.

³⁰This point was reiterated by the Indonesian Foreign Minister, who stated, "Indeed, international terrorism today looms on the horizon as one of the major threats to human life and civilization. The truth, of course, is that multiple threats and challenges are an inherent and co-existing feature of inter-state relations. We cannot grapple with this threat and leave the others to wreak havoc on the world." See "The Democratic Response", Statement by H.E. Dr. N. Hassan Wirajuda, Minister for Foreign Affairs of the Republic of Indonesia, at the 56th Session of the UN General Assembly, New York, 15 November 2001.

²⁶John McBeth, Trish Saywell, "Gas Gateway," *Far Eastern Economic Review*, 22 February 2001. See also "Speech by PM Goh Chok Tong at the Indonesian-Singapore First Gas Delivery Ceremony, 15 January 2001, at Sakra, Jurong Island," *Singapore Government Media Release*. For further information on energy cooperation, see Severino, 261-267.

²⁷Report of the Roundtable Seminar on ASEAN Sub-Regional Groupings: Acceleration Regional Integration and Growth, BS Begawan, 26-27 September 2001, paragraph 4.

position is that the TAC should be the basis for establishing a code of international conduct over the area.³¹ The ASEAN Foreign Ministers agreed in 1996 to the idea of a regional code of conduct. Subsequently, the 1998 Summit pushed the idea of creating the code of conduct, and China agreed in 1999 to negotiate it.

ASEAN's most immediate concern, therefore, is the conclusion of the agreement (Regional Code of Conduct in the South China Sea). The negotiation has, unfortunately, been bogged down by differences within ASEAN itself, thus undermining efforts to strengthen political and security cooperation. It might very well send the wrong signal to China as to ASEAN's cohesiveness and capacity as a group, and it will weaken ASEAN credibility in the future *vis-à-vis* China.

The South China Sea has thus far been governed by the regime of freedom of navigation and ASEAN has at various occasions reiterated its support for it.³²

A conceptual framework by Joseph Nye ("The New Rome meets the new barbarians," *The Economist*, 23 March 2002) is helpful to understand this post-Cold War phenomenon. He argues that international power in a global information age is distributed in a three-dimensional pattern: military power (uni-polar), economic power (multi-polar) and transnational relations outside government control (diverse).

³¹This statement is contained in operative paragraph 4 of the ASEAN Declaration on the South China Sea, Manila, 22 July 1992.

³²This was stated at the 28th, 29th, 33rd and 34th ASEAN Ministerial Meetings held in 1995, 1996, 2000 and 2001 respectively.

The challenge is that China as a claimant will seek to enforce, gradually and as it sees fit, what it considers as its territorial waters. This was illustrated by various low-level naval clashes in the late 1980s and early 1990s, as well as April 2001 US-Chinese aircraft collision off the coast of Hainan. Another case in point was China's promulgation in 1992 of the Law on the Territorial Sea and the Contiguous Zone that claimed sovereignty over the South China Sea and reserved the right to use force to expel "intruders."³³

THE CENTRAL ROLE OF THE SEA AND THE IMPORTANCE OF MARITIME COOPERATION

A greater interface between ZOPFAN and AFTA is needed to strengthen ASEAN's cohesiveness and capacity to deal with the challenges it has to face. Maritime cooperation is indeed important because ASEAN is predominantly and uniquely maritime in nature.

Clearly the separate implementation of ZOPFAN and AFTA and their respective mechanisms could not address adequately today's challenges. Nor are they sufficiently equipped to deal with challenges that are intertwined and cannot be contained within the walls of the politics-security and economics. Individually, they are also not equipped to enhance ASEAN's cohes-

³³Sidharto R. Suryodipuro, "South China Sea is focus of regional concern," *The Jakarta Post*, 10 June 1993.

iveness and solidarity and to develop a sense of community and identity.

Current ASEAN efforts to deal with globalization are being implemented mainly through economic means. These measures, though, have not been able to negate the onslaught of globalization because remedial actions at the regional level have not been able to match the sources of globalization at the international level. Their effectiveness have also been hampered by diverse economic capacity and political forms.

One way to overcome it, therefore, is to strengthen linkages between ASEAN's sub-regions, while at the same time focusing on the welfare and economic capacity of coastal people. Ideas to link the sub-regions had been broached at the 2000 and 2001 Summits. Indeed, the 2002 Summit reaffirmed its support for such a cooperation in the integration of ASEAN and recognized the linkages between welfare and security of the sub-regions. Clearly, the sea would play a central role as the medium to help maintain the cohesiveness between the continental and archipelagic parts of ASEAN.

Transnational crimes are not new, but the advent of globalization has facilitated their growth to become a serious threat to security. ASEAN's political instruments, geared toward classical inter-state relations, will have limited effects in stemming their activities. Many of these crimes are carried-out at the "grass-root" level. Therefore, ASEAN needs to integrate economic and security

matters, including closer attention to the coastal peoples of the Malacca Strait to the South China Sea rim.

ASEAN could also strengthen its external engagement. An example is its cooperation with Japan to combat piracy. Japan has indicated in 1999 of its intention of pursuing a three-pronged strategy to combat piracy in the sea lanes around Indonesia: establishing a regional "coastguard body," strengthening support for shipping companies, and improving regional coordination to respond to attacks.³⁴

As with the rise of China, there is a real concern that it would destabilize the South China Sea. The maintenance of peace and stability of the region is the interest of ASEAN, backed by the ZOPFAN treaties. ASEAN therefore ought to strengthen its balancing and moderating role, particularly in maintaining freedom for navigation, in accordance with UNCLOS

³⁴Japan hosted a "Regional Conference on Combating Piracy and Armed Robbery against Ships" in April 2000; dispatched the "Mission for Combating Piracy and Armed Robbery against Ships" to the Philippines, Malaysia, Singapore and Indonesia in September 2000 to consult on specific measures of assistance and cooperation; held the "Asia Cooperation Conference on Combating Piracy and Armed Robbery against Ships" in October 2001 to discuss medium and long-term vision convening regional cooperation framework; and has undertaken specific measures, such as combined exercise and exchanges of views with India, Malaysia and the Philippines.

See also, Nayan Chanda, *Ibid.* As to Japan's cooperation with other countries, see Joanna Sadanand Dhume Slater, "India: Gazing East," *Far Eastern Economic Review*, 1 March 2001.

1982 and ASEAN's own established position.

ZOPFAN contains principles on which ASEAN could base its stance. But its members would have to work out a security arrangement or cooperation involving their navies, coast guards, immigration and customs. The main stumbling block will be (and has been) the overlapping claims among ASEAN's members in the South China Sea. Indonesia as a non-claimant maritime power has an interest and vantage point for promoting ASEAN's cohesiveness.

ASEAN has undertaken security cooperation in various forums -e.g., for a regional order through the TAC or for an East Asia and the Pacific security architecture through the ARF- but military cooperation remains anathema. There are indications that relations among ASEAN militaries are more relaxed now due to confidence-building measures over the years. A common perception of threat is gradually being forged to establish low-level naval cooperation to combat maritime transnational crimes. This kind of cooperation could act as an embryo of wider cooperation to address various maritime problems that will become more frequent and complex.

While "interfacing" of ZOPFAN and AFTA requires a maritime strategy, ASEAN also needs a forum to deliberate on it. The practical and procedural difficulties are that ZOPFAN has always been the purview of ASEAN's foreign ministers, while AFTA its economic ministers. What is needed, therefore, is for ASEAN

Leaders to declare the importance of maritime cooperation to complement existing regional frameworks.

Furthermore, ASEAN should continue to nurture its sense of community and identity. By strengthening maritime cooperation, ultimately ASEAN would develop a sense of maritime community, because as ASEAN forges regional economic integration and political cohesion, it will also have to enhance its social homogeneity.

Convincing ASEAN of the merit of the idea contained here will require consistency because it has not been in the mainstream. It would call for a top down approach, while the practical follow-up would require persistent efforts by the Indonesian delegation at the various ASEAN meetings and mechanisms. The Department of Foreign Affairs would have to coordinate within itself and with the various government agencies involved, to push the maritime agenda in ASEAN bodies and mechanisms.

A more subtler alternative is to undertake efforts on the broad front of ASEAN cooperation. This implies that at various ASEAN meetings and mechanisms the Indonesian delegation would apply a maritime approach. Thus, the Department's role would also be essential to internalize, externalize, and coordinate the broad front. This tactic will not "startle" other ASEAN members, as the applicability of a maritime approach to particular issues would be judged on its own virtues.

There would be a number of obstacles to the approach. First, not all members may agree with it. Laos, a land-locked country, may not find the approach appealing, although their right of access to and from the sea and freedom of transit are guaranteed under international law, namely UNCLOS 1982. It would thus benefit from the success of maritime cooperation. In addition, although confidence among members is high as a result of years of confidence-building and cooperating, there are still a number of problems and suspicions between ASEAN member states. Singapore, for example, out of feeling of insecurity, may not be easily convinced of the merits of regional maritime cooperation.

Second, maritime cooperation involves large investments in various infrastructural projects and means of transportation. It is particularly an issue at a time of scarcity of funds due to global and regional economic difficulties. In this connection, the sub-regional economic cooperation is important because it mobilizes and facilitates the participation and cooperation of the private sector.

ASEAN INTO THE NEW ERA

How should ASEAN deal with the current challenges in particular, such as globalization, transnational crimes and the rise of China, while strengthening its internal mechanisms? One proposition is to

complement ASEAN's main regional instruments for cohesion and integration -ZOPFAN and AFTA, respectively- with an integrative approach that takes into account the common maritime denominator of ASEAN members. It recognizes that security, prosperity, and a sense of community are inter-related and should be mutually supportive.

Geography is an important determinant in inter-state and inter-society relations. ASEAN, because of its incon-tiguous proximity, must therefore undertake extra efforts to strengthen its political, economic and social homogeneity.

Looking at the challenges and responses, including the level of ASEAN integration, ASEAN will have to adjust its ways. ZOPFAN and AFTA, while have proven useful and instrumental in ASEAN's successes, are inadequate to address the multi-faceted and intertwined challenges; nor are they equipped to enhance ASEAN's cohesiveness and solidarity and to nurture a sense of community.

Maritime cooperation would support ASEAN's integration and cohesion because they reconcile ASEAN's function with its geographical nature. A combination of security, prosperity, and a sense of maritime community will bring ASEAN into the new era of international relations.

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